

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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)

20-0028718

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

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

(Address of principal executive offices)

30005

(Zip Code)

(678) 990-5740

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 May 6, 2019, there were 71,000,495 shares of the registrant's Common Stock issued and outstanding.

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)

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND PROJECTIONS

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

- 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 (EEA) and other regions of the world where we sell ILUVIEN;
- dependence on third-party manufacturers to manufacture ILUVIEN or any future products or product candidates in sufficient quantities and quality;
- uncertainty 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 the U.K., Ireland, Germany, Austria, Portugal, Italy, Spain and France 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 EEA;
- our ability to successfully commercialize ILUVIEN following regulatory approval in additional markets;
- delay in or failure to obtain regulatory approval of ILUVIEN or any future products or product candidates in additional countries;
- the possibility that we may again fail to comply with the continuing listing standards of the Nasdaq Global Market because the closing bid price of our common stock on the Nasdaq Global Market is below \$1.00 for 30 consecutive business days;
- our ability to operate our business in compliance with the covenants and restrictions in our credit facility;
- current and future laws and regulations; and
- our possible need to raise additional financing.

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

We encourage you to read the discussion and analysis of our financial condition and our condensed consolidated financial statements contained in this report. We also encourage you to read Item 1A of Part II of this Quarterly Report on Form 10-Q, entitled “Risk Factors” and Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 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 will in fact achieve the actual results or developments we anticipate or, even if we do substantially realize them, that they will have the expected consequences to, or effects on, us. Therefore, we can give no assurances that we will achieve the outcomes stated in those forward-looking statements and estimates.

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

	March 31, 2019	December 31, 2018
	(In thousands, except share and per share data)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,094	\$ 13,043
Restricted cash	33	32
Accounts receivable, net	15,417	17,259
Prepaid expenses and other current assets	2,469	2,109
Inventory (Note 7)	1,860	2,405
Total current assets	32,873	34,848
NON-CURRENT ASSETS:		
Property and equipment, net	1,259	1,355
Right of use assets, net	775	—
Intangible asset, net (Note 8)	16,245	16,723
Deferred tax asset	1,158	1,182
TOTAL ASSETS	\$ 52,310	\$ 54,108
CURRENT LIABILITIES:		
Accounts payable	\$ 6,602	\$ 6,355
Accrued expenses (Note 9)	3,118	3,643
Finance lease obligations	253	236
Total current liabilities	9,973	10,234
NON-CURRENT LIABILITIES:		
Note payable (Note 11)	38,080	37,873
Finance lease obligations — less current portion	241	305
Other non-current liabilities	3,370	2,974
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value — 10,000,000 shares authorized at March 31, 2019 and December 31, 2018:		
Series A Convertible Preferred Stock, 1,300,000 authorized and 600,000 issued and outstanding at March 31, 2019 and December 31, 2018; liquidation preference of \$24,000 at March 31, 2019 and December 31, 2018	19,227	19,227
Series C Convertible Preferred Stock, 10,150 authorized issued and outstanding at March 31, 2019 and December 31, 2018; liquidation preference of \$10,150 at March 31, 2019 and December 31, 2018	11,117	11,117
Common stock, \$.01 par value — 150,000,000 shares authorized, 70,968,630 shares issued and outstanding at March 31, 2019 and 70,078,878 shares issued and outstanding at December 31, 2018	710	701
Additional paid-in capital	346,869	346,108
Common stock warrants	3,707	3,707
Accumulated deficit	(379,890)	(377,127)
Accumulated other comprehensive loss	(1,094)	(1,011)
TOTAL STOCKHOLDERS' EQUITY	646	2,722
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 52,310	\$ 54,108

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,	
	2019	2018
	(In thousands, except share and per share data)	
NET REVENUE	\$ 12,890	\$ 9,630
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,600)	(1,104)
GROSS PROFIT	11,290	8,526
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,727	2,822
GENERAL AND ADMINISTRATIVE EXPENSES	3,393	3,855
SALES AND MARKETING EXPENSES	5,913	5,969
DEPRECIATION AND AMORTIZATION	652	649
OPERATING EXPENSES	12,685	13,295
NET LOSS FROM OPERATIONS	(1,395)	(4,769)
INTEREST EXPENSE AND OTHER	(1,228)	(1,151)
UNREALIZED FOREIGN CURRENCY (LOSS) GAIN, NET	(69)	2
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	(1,766)
NET LOSS BEFORE TAXES	(2,692)	(7,684)
PROVISION FOR TAXES	(71)	—
NET LOSS	(2,763)	(7,684)
NET LOSS PER SHARE — Basic and diluted	\$ (0.04)	\$ (0.11)
WEIGHTED AVERAGE SHARES OUTSTANDING — Basic and diluted	70,740,851	69,883,012

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended	
	March 31,	
	2019	2018
	(In thousands)	
NET LOSS	\$ (2,763)	\$ (7,684)
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustments	(83)	106
TOTAL OTHER COMPREHENSIVE INCOME	(83)	106
COMPREHENSIVE LOSS	\$ (2,846)	\$ (7,578)

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2019	2018
(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,763)	\$ (7,684)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	652	649
Unrealized foreign currency transaction loss (gain)	69	(2)
Loss on early extinguishment of debt	—	1,766
Amortization of debt discount	206	214
Stock-based compensation expense	770	1,207
Changes in assets and liabilities:		
Accounts receivable	1,755	(867)
Prepaid expenses and other current assets	(381)	309
Inventory	532	299
Accounts payable	301	(992)
Accrued expenses and other current liabilities	(857)	70
Other long-term liabilities	—	(17)
Net cash provided by (used in) operating activities	284	(5,048)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(15)	(91)
Net cash used in investing activities	(15)	(91)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	—	2
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 finance lease obligations	(110)	(83)
Net cash (used in) provided by financing activities	(110)	1,233
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(107)	93
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	52	(3,813)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	13,075	24,101
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — End of period	\$ 13,127	\$ 20,288
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 1,012	\$ 932
Cash paid for income taxes	\$ 4	\$ —
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment acquired under capital leases	\$ 64	\$ 252
Note payable end of term payment accrued but unpaid	\$ —	\$ 1,800

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' 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					
2019 (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
2018													
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	729	—	—	—	—	—	—	—	2	—	—	—	2
Stock-based compensation	—	—	—	—	—	—	—	—	1,207	—	—	—	1,207
Net loss	—	—	—	—	—	—	—	—	—	—	(7,684)	—	(7,684)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—	106	106
Balance, March 31, 2018	69,986,395	\$ 700	600,000	\$19,227	8,416	\$49,568	—	\$ —	\$342,822	\$ 3,707	\$ (406,758)	\$ (715)	\$ 8,551

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

The Company is presently focused on diseases affecting the back of the eye, or retina, because the Company's management believes these diseases are not well treated with current therapies and represent a significant market opportunity. The Company's only commercial product is ILUVIEN®, which has received marketing authorization in the United States (U.S.), Austria, Belgium, 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., 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 and for prevention of relapse in recurrent non-infectious uveitis affecting the posterior segment of the eye in countries where the Company has satisfied the country's labeling requirements and the Company is now permitted to market ILUVIEN.

The Company has completed enrollment into 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 commercially markets ILUVIEN directly in the U.S., Germany, the United Kingdom, Portugal, Austria and Ireland. In addition, the Company has entered into various agreements under which distributors will provide regulatory, reimbursement or sales and marketing support for commercialization or future commercialization of ILUVIEN in France, Italy, 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 Company's Canadian distributor is currently pursuing reimbursement. As of March 31, 2019, the Company has recognized sales of ILUVIEN to the Company's international distributors in the Middle East, France, Italy and Spain.

In July 2017, the Company amended its license with EyePoint Pharmaceuticals US, Inc. (EyePoint) formerly known as pSivida US, Inc. for the technology underlying ILUVIEN to include the treatment of uveitis, including non-infectious posterior uveitis (NIPU) in Europe, the Middle East and Africa (See Note 10). Uveitis is an inflammatory disease of the uveal tract, which is comprised of the iris, ciliary body and choroid, that can lead to severe vision loss and blindness. In December 2017, the Company filed an application for a new indication for ILUVIEN for NIPU in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME. The regulatory authorities requested additional follow-up data from the clinical trials to support the application, which was submitted in October 2018. 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 an additional indication. The FVAR states that ILUVIEN is approved for the additional indication for prevention of relapse in recurrent non-infectious uveitis affecting the posterior segment of the eye, or NIPU.

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, the instructions to Form 10-Q and Article 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of the Company's management, the accompanying interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company's interim financial information.

The accompanying interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 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 \$197,000 and \$104,000 for the three months ended March 31, 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 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 current guidance. 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 to not 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. 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 a material 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 (Topic 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.

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 March 31, 2019, the Company had received a total of \$1,000,000 of payments that it has not recognized as revenue based on the Company's analysis in connection with Topic 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.

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

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. 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. The Company has determined it is not reasonably certain it will exercise any of its renewal options. 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 March 31, 2019 for the Company's operating leases is as follows:

	(in thousands)
NON-CURRENT ASSETS:	
Right of use assets, net	\$ 775
Total lease assets	<u>\$ 775</u>
CURRENT LIABILITIES:	
Accrued expenses (Note 9)	\$ 433
NON-CURRENT LIABILITIES:	
Other non-current liabilities	560
Total lease liabilities	<u>\$ 993</u>

The Company's operating lease cost for the three months ended March 31, 2019 was \$123,000 and is included in general and administrative expenses in its Condensed Consolidated Statement of Operations.

As of March 31, 2019, a schedule of maturity of lease liabilities under all of the Company's operating leases is as follows:

<u>Years Ending December 31</u>	(In thousands)
2019 (remaining)	\$ 394
2020	412
2021	299
Total	<u>1,105</u>
Less amount representing interest	<u>(112)</u>
Present value of minimum lease payments	993
Less current portion	<u>(433)</u>
Non-current portion	<u>\$ 560</u>

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Cash paid for operating leases was \$100,000 during the three months ended March 31, 2019. An insignificant amount of right of use assets was obtained in exchange for operating leases for the three months ended March 31, 2019.

As of March 31, 2019, the weighted average remaining lease terms of the Company's operating leases was 2.1 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 applies 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 March 31, 2019 and December 31, 2018 for the Company's finance leases are as follows:

	March 31, 2019	December 31, 2018
	(In thousands)	
NON-CURRENT ASSETS:		
Property and equipment, net	\$ 602	\$ 615
Total lease assets	<u>\$ 602</u>	<u>\$ 615</u>
CURRENT LIABILITIES:		
Finance lease obligations	\$ 253	\$ 236
NON-CURRENT LIABILITIES:		
Finance lease obligations — less current portion	241	305
Total lease liabilities	<u>\$ 494</u>	<u>\$ 541</u>

Depreciation expense associated with property and equipment under finance leases was approximately \$76,000 and \$49,000 for the three months ended March 31, 2019 and 2018, respectively. Interest expense associated with finance leases was \$9,000 and \$6,000 for the three months ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, a schedule of maturity of lease liabilities under finance leases, together with the present value of minimum lease payments, is as follows:

Years Ending December 31	(In thousands)
2019 (remaining)	\$ 211
2020	253
2021	65
2022	3
Total	<u>532</u>
Less amount representing interest	(38)
Present value of minimum lease payments	494
Less current portion	(253)
Non-current portion	<u>\$ 241</u>

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Cash paid for finance leases was \$100,000 during the three months ended March 31, 2019. The Company acquired \$64,000 of property and equipment in exchange for finance leases for the three months ended March 31, 2019.

As of March 31, 2019, the weighted average remaining lease terms of the Company's financing leases was 1.8 years. The weighted average discount rate used to determine the financing lease liabilities was 7.0%. 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 \$379,890,000 from inception through March 31, 2019. As of March 31, 2019, the Company had approximately \$13,094,000 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 without access to 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:

	March 31, 2019	December 31, 2018
	(In thousands)	
Component parts (1)	\$ 413	\$ 129
Work-in-process (2)	111	924
Finished goods	1,336	1,352
Total Inventory	<u>\$ 1,860</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 \$478,000 for both the three months ended March 31, 2019 and 2018, respectively. The net book value of the intangible asset was \$16,245,000 and \$16,723,000 as of March 31, 2019 and December 31, 2018, respectively.

The estimated future amortization expense as of March 31, 2019 for the remaining periods in the next five years and thereafter is as follows:

<u>Years Ending December 31</u>	(In thousands)	
2019	\$	1,462
2020		1,946
2021		1,940
2022		1,940
2023		1,940
Thereafter		7,017
Total	<u>\$</u>	<u>16,245</u>

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(In thousands)	
Accrued clinical investigator expenses	\$ 840	\$ 781
Accrued compensation expenses	1,212	1,427
Accrued rebate, chargeback and other revenue reserves	385	346
Accrued lease liabilities (Note 5)	433	—
Other accrued expenses	248	1,089
Total accrued expenses	<u>\$ 3,118</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.

2008 Amended and Restated Collaboration Agreement

Pursuant to the payment terms of the 2008 Amended and Restated Agreement (the 2008 Agreement), the Company was required to share with EyePoint 20% of the net profits of ILUVIEN, determined on a cash basis and 33% of any lump sum milestone payments received from a sub-licensee of ILUVIEN. In connection with this arrangement, the Company was entitled to recover out of EyePoint's share of the net profits of ILUVIEN, 20% of ILUVIEN's commercialization costs (as defined in the EyePoint Agreement) that were incurred prior to product profitability. (The Company's future rights to recover these amounts from EyePoint are referred to as the Future Offset.) In connection with the New Collaboration Agreement discussed below, the Future Offset was further amended.

New Collaboration Agreement - Second Amended and Restated Collaboration Agreement

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

Prior to entering into the New Collaboration Agreement, the Company held the worldwide license from EyePoint for the use of EyePoint's proprietary insert technology for the treatment of all ocular diseases other than uveitis. The New Collaboration Agreement expands the license to include uveitis, including NIPU, in Europe, the Middle East and Africa and 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 months ended March 31, 2019 and 2018, the Company recognized approximately \$516,000 and \$193,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization. As of March 31, 2019, approximately \$516,000 of royalty expense was included in the Company's accounts payable.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the New Collaboration Agreement, the Company and EyePoint first agreed to cap the Future Offset amount at \$25,000,000 as of June 30, 2017 and the Company then agreed to forgive \$10,000,000 of the total \$25,000,000 of the Future Offset at the July 10, 2017 amendment date. Following the signing of the New Collaboration Agreement, the Company retained a right to recover up to the remaining \$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 March 31, 2019, the balance of the Future Offset was approximately \$9,820,000. 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:

- In the first two years following the December 12, 2018 increase in royalty amount to 6%, the royalty will be reduced to 4% for net revenues and other related consideration up to \$75,000,000 annually and 5%, rather than 8%, for net revenues and other related consideration in excess of \$75,000,000 on an annual basis; and
- Beginning with the third year following the December 12, 2018 increase in royalty amount to 6%, the royalty will be reduced to approximately 5.2% for net revenues and other related consideration up to \$75,000,000 annually and to approximately 6.8%, rather than 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:

- (i) fail twice to cure its breach of an obligation to make certain payments to EyePoint following receipt of written notice thereof;
- (ii) fail to cure other breaches of material terms of the 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;
- (iii) file for protection under the bankruptcy laws, make an assignment for the benefit of creditors, appoint or suffer appointment of a receiver or trustee over its property, file a petition under any bankruptcy or insolvency act or have any such petition filed against it and such proceeding remains undismissed or unstayed for a period of more than 60 days; or
- (iv) notify EyePoint in writing of its decision to abandon its license with respect to a certain product using EyePoint's proprietary delivery device.

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 October 20, 2016 Alimera UK and Hercules entered into a fourth amendment to the Hercules Loan Agreement (the Fourth Loan Amendment), which provided the operative loan agreement terms during 2017 and the beginning of 2018. On January 5, 2018, the Company paid off the Hercules Loan on behalf of Alimera UK.

The Fourth Loan Amendment provided for interest only payments that were scheduled through November 30, 2018. Pursuant to the Fourth Loan Amendment, interest on the Hercules Loan accrued at a floating per annum rate equal the greater of (i) 11.0% or (ii) the sum of (A) 11.0% plus (B) the prime rate as reported in The Wall Street Journal, or if not reported, the prime rate most recently reported in The Wall Street Journal, minus 3.5%. In addition to the interest described above, the principal balance of the Hercules Loan bore “payment-in kind” interest at the rate of 1.0% (PIK Interest), which PIK Interest was added to the outstanding principal balance of the Hercules Loan. The interest rate on the Hercules Loan Agreement was 12.0% when the Company paid it off.

Under the Hercules Loan Agreement as amended by the Fourth Loan Amendment, any principal prepayment of the Hercules loan triggered a prepayment penalty based on when the prepayment occurred. When the Company prepaid the Hercules Loan Agreement on January 5, 2018, the Company paid 2.0% of the principal amount repaid, or \$709,000, which is included in loss on early extinguishment of debt for the three months ended March 31, 2018. Before Alimera UK entered into the Fourth Loan Agreement, Alimera UK was already obligated to pay an end of term payment of \$1,400,000, which was paid when the Company paid off the Hercules loan on January 5, 2018.

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 the Fourth Loan Amendment, 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 March 31, 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

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

prepayment premium upon any prepayment of the 2018 Loan Agreement before its maturity date, whether by mandatory or voluntary prepayment, acceleration or otherwise, equal to:

- a. 2.00% of the principal amount prepaid for a prepayment made on or after January 5, 2018 through and including January 5, 2019;
- b. 1.00% of the principal amount prepaid for a prepayment made after January 5, 2019 through and including January 5, 2020; and
- c. 0.50% of the principal amount prepaid for a prepayment made after January 5, 2020 and greater than 30 days before the maturity date.

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

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

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

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

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

Extinguishment of Debt

In accordance with the guidance in ASC 470-50, *Debt*, the Company accounted for the extinguishment of the Hercules Loan 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 three months ended March 31, 2018. The loss on early extinguishment consisted primarily of the early termination fee paid to Hercules and unamortized debt discounts including the remaining portion of warrant values and debt issuance costs.

Fair Value of Debt

The weighted average interest rates of the Company’s notes payable approximate the rate at which the Company could obtain alternative financing. Therefore, the carrying amount of the notes approximated their fair value at March 31, 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.

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 or would have been anti-dilutive, were as follows:

	Three Months Ended	
	March 31,	
	2019	2018
Series A convertible preferred stock	9,022,556	9,022,556
Series B convertible preferred stock	—	8,416,251
Series C convertible preferred stock	10,150,000	—
Common stock warrants	1,795,663	1,795,663
Stock options	13,407,536	12,343,820
Restricted stock units	480,400	1,039,370
Total	34,856,155	32,617,660

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 March 31, 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 March 31, 2019 and 2018, the Company recorded compensation expense related to stock options of approximately \$545,000 and \$866,000, respectively. As of March 31, 2019, the total unrecognized compensation cost related to non-vested stock options granted was \$2,964,000 and is expected to be recognized over a weighted average period of 2.52 years. The following table presents a summary of stock option activity for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,			
	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	1,174,750	0.87	1,233,000	1.16
Forfeitures	(214,569)	1.99	(483,127)	2.34
Exercises	—	—	(1,563)	1.06
Options outstanding at period end	13,407,536	2.48	12,343,820	2.75
Options exercisable at period end	9,536,065	3.02	8,168,883	3.24
Weighted average per share fair value of options granted during the period	\$ 0.55		\$ 0.78	

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options that were expected to vest as of March 31, 2019:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	13,407,536	\$ 2.48	6.29 years	\$ 321
Exercisable	9,536,065	3.02	5.24 years	53
Outstanding, vested and expected to vest	12,885,031	2.54	6.17 years	276

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 March 31, 2019, the Company was authorized to grant options to purchase up to an additional 833,417 shares under the 2010 Equity Incentive Plan, taking into account the annual increase in the number of shares available for issuance under the Company's 2010 Equity Incentive Plan and the options and restricted stock units (RSUs) granted and forfeited during the three months ended March 31, 2019.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Employee Stock Purchase Plan

During the three months ended March 31, 2019 and 2018, the Company recorded compensation expense related to its employee stock purchase plan of approximately \$6,000 and \$10,000, respectively.

Restricted Stock Units

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

	Three Months Ended March 31,			
	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	480,400	0.86	1,061,170	1.16
Vested units	(889,752)	1.15	(839,285)	1.21
Forfeitures	(10,500)	1.16	(21,800)	1.16
Restricted stock units outstanding at year end	<u>480,400</u>	0.86	<u>1,039,370</u>	1.16

As of December 31, 2018, there was approximately \$352,000 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 was \$219,000 and \$331,000 for the three months ended March 31, 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 months ended March 31, 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 unrecognized tax benefits related to research and development tax credits. In accordance with ASC 740-10, such attributes are reduced to the amount that is expected to be recognized in the future. The Company has not accrued interest or penalties as no research and development credits have been utilized due to significant net operating losses (NOLs) available. The Company does not expect any decreases to the unrecognized tax benefits within the next twelve months due to any lapses in statute of limitations. Tax years remain subject to examination at the U.S. federal level between 2010 and 2017, and subject to examinations at various state levels between 2005 and 2017. 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 March 31, 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 estimated that approximately \$18.6 million of the Company's federal NOLs and approximately \$382,000 of federal tax credits generated prior to the change in ownership will not be utilized in the future. The Company is currently in the process of refining and finalizing these calculations, and upon finalization, will determine if a write-off is necessary. The reduction to the Company's NOL deferred tax

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 March 31, 2019 and 2018, two customers within the U.S. segment that are large pharmaceutical distributors accounted for 52% and 71%, respectively, of the Company's consolidated revenues. These same two customers within the U.S. segment accounted for approximately 73% of the Company's consolidated accounts receivable at both March 31, 2019 and at December 31, 2018.

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 that information is not reviewed by the Company's chief operating decision maker.

The following table presents a summary of the Company's reporting segments for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019				Three Months Ended March 31, 2018			
	U.S.	International	Other	Consolidated	U.S.	International	Other	Consolidated
	(In thousands)							
NET REVENUE	\$ 6,766	\$ 6,124	\$ —	\$ 12,890	\$ 6,805	\$ 2,825	\$ —	\$ 9,630
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(685)	(915)	—	(1,600)	(713)	(391)	—	(1,104)
GROSS PROFIT	6,081	5,209	—	11,290	6,092	2,434	—	8,526
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,427	1,170	130	2,727	1,640	950	232	2,822
GENERAL AND ADMINISTRATIVE EXPENSES	1,933	988	472	3,393	2,293	907	655	3,855
SALES AND MARKETING EXPENSES	4,041	1,705	167	5,913	4,371	1,278	320	5,969
DEPRECIATION AND AMORTIZATION	—	—	652	652	—	—	649	649
OPERATING EXPENSES	7,401	3,863	1,421	12,685	8,304	3,135	1,856	13,295
SEGMENT (LOSS) INCOME FROM OPERATIONS	(1,320)	1,346	(1,421)	(1,395)	(2,212)	(701)	(1,856)	(4,769)
OTHER INCOME AND EXPENSES, NET	—	—	(1,297)	(1,297)	—	—	(2,915)	(2,915)
NET LOSS BEFORE TAXES				\$ (2,692)				\$ (7,684)

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

Overview

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

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

Our only commercial product is ILUVIEN[®], which has received marketing authorization in the U.S., Austria, Belgium, 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., 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 and for prevention of relapse in recurrent non-infectious uveitis affecting the posterior segment of the eye in countries where the local assessment process is closed.

We commercially market ILUVIEN 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 or sales and marketing support for ILUVIEN in France, Italy, 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. Our Canadian distributor is currently pursuing reimbursement. As of March 31, 2019, we have recognized sales of ILUVIEN to the Company's international distributors in the Middle East, France, Italy and Spain.

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, the technology underlying ILUVIEN now includes the treatment of uveitis, including non-infectious posterior uveitis (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 non-infectious posterior uveitis (NIPU) in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME. Uveitis is an inflammatory disease of the uveal tract, which is comprised of the iris, ciliary body and choroid, that can lead to severe vision loss and blindness. The regulatory authorities requested additional follow-up data from the clinical trials to support the application, which was submitted in October 2018. 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 an additional indication. The FVAR states that ILUVIEN is approved for the additional indication for prevention of relapse in recurrent non-infectious uveitis affecting the posterior segment of the eye.

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 months ended March 30, 2019 and 2018, we recognized approximately \$516,000 and \$193,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization. As of March 31, 2019, approximately \$516,000 of this royalty expense was included in our accounts payable.

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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 March 31, 2019, the balance of the Future Offset was approximately \$9,820,000. (See Note 10 of our notes to the accompanying unaudited interim condensed consolidated financial statements and notes thereto (Interim Financial Statements).)

We commenced operations in June 2003. Since our inception we have incurred significant losses. As of March 31, 2019, we had accumulated a deficit of \$379.9 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 March 31, 2019, we had approximately \$13.1 million in cash and cash equivalents.

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

Our revenues for the three months ended March 31, 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 52% and 71% of our consolidated revenues for the three months ended March 31, 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 March 31,	
	2019	2018
	(In thousands, except share and per share data)	
NET REVENUE	\$ 12,890	\$ 9,630
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,600)	(1,104)
GROSS PROFIT	11,290	8,526
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,727	2,822
GENERAL AND ADMINISTRATIVE EXPENSES	3,393	3,855
SALES AND MARKETING EXPENSES	5,913	5,969
DEPRECIATION AND AMORTIZATION	652	649
OPERATING EXPENSES	12,685	13,295
NET LOSS FROM OPERATIONS	(1,395)	(4,769)
INTEREST EXPENSE AND OTHER	(1,228)	(1,151)
UNREALIZED FOREIGN CURRENCY (LOSS) GAIN, NET	(69)	2
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	(1,766)
NET LOSS BEFORE TAXES	(2,692)	(7,684)
PROVISION FOR TAXES	(71)	—
NET LOSS	(2,763)	(7,684)
NET INCOME (LOSS) AVAILABLE TO STOCKHOLDERS	\$ (2,763)	\$ (7,684)
NET LOSS PER SHARE — Basic and diluted	\$ (0.04)	\$ (0.11)
WEIGHTED AVERAGE SHARES OUTSTANDING — Basic and diluted	70,740,851	69,883,012

Net Revenue

We began generating revenue from ILUVIEN in 2013. In addition to generating revenue from product sales, we intend to seek to generate revenue from other sources such as upfront fees, milestone payments in connection with collaborative or strategic relationships, and royalties resulting from the licensing of ILUVIEN or any future product candidates and other intellectual property. Additionally, revenue from our U.S. 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 \$3.3 million, or 34%, to approximately \$12.9 million for the three months ended March 31, 2019, compared to approximately \$9.6 million for the three months ended March 31, 2018. The increase was primarily attributable to a revenue increase in our international segment, including increases of approximately \$1.7 million in the international markets where we sell direct and \$1.6 million in the international markets where we sell to distributors.

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

Gross profit is affected by costs of goods sold, which includes (a) costs of manufactured goods sold and (b) payments to EyePoint in the form of royalty payments 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 \$500,000, or 45%, to approximately \$1.6 million for the three months ended March 31, 2019, compared to approximately \$1.1 million for the three months ended March 31, 2018. The increase was primarily attributable to increased sales in our international segment, including increases in both the international markets where we sell direct and the international markets where we sell to distributors.

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Gross profit increased by approximately \$2.8 million, or 33%, to approximately \$11.3 million for the three months ended March 31, 2019, compared to approximately \$8.5 million for the three months ended March 31, 2018. Gross margin was 88% and 89% for the three months ended March 31, 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 includes salaries and related expenses for research and development and medical affairs personnel, including medical sales liaisons, costs related to the provision of medical affairs support, including symposia development for physician education, and costs related to compliance with FDA, EEA or other regulatory requirements. We expense both internal and external development costs as they are incurred.

Research, development and medical affairs expenses decreased by approximately \$100,000, or 4%, to approximately \$2.7 million for the three months ended March 31, 2019, compared to approximately \$2.8 million for the three months ended March 31, 2018.

General and Administrative Expenses

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

General and administrative expenses decreased by approximately \$500,000, or 13%, to approximately \$3.4 million for the three months ended March 31, 2019, compared to approximately \$3.9 million for the three months ended March 31, 2018. The decrease was primarily attributable to decreases in personnel costs.

Sales and Marketing Expenses

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

Sales and marketing expenses decreased by approximately \$100,000, or 2%, to approximately \$5.9 million for the three months ended March 31, 2019, compared to approximately \$6.0 million for the three months ended March 31, 2018.

Operating Expenses

As a result of the decreases in various expenses described above, total operating expenses decreased by approximately \$600,000, or 5%, to approximately \$12.7 million for the three months ended March 31, 2019, compared to approximately \$13.3 million for the three months ended March 31, 2018. The decrease was primarily attributable to an approximately \$500,000 decrease in general and administrative expenses, a \$100,000 decrease in research, development and medical affairs expenses and a \$100,000 decrease in sales and marketing expenses.

Interest Expense and Other

Interest expense and other was approximately \$1.2 million for the three months ended March 31, 2019 and 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 three months ended March 31, 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 ASC 260, *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

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and pay dividends), the Company uses 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.

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 or would have been anti-dilutive, were approximately 34,856,155 for the three months ended March 31, 2019 and 32,617,660 for the three months ended March 31, 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 March 31,	
	2019	2018
	(In thousands)	
NET REVENUE	\$ 6,766	\$ 6,805
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(685)	(713)
GROSS PROFIT	6,081	6,092
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,427	1,640
GENERAL AND ADMINISTRATIVE EXPENSES	1,933	2,293
SALES AND MARKETING EXPENSES	4,041	4,371
OPERATING EXPENSES	7,401	8,304
SEGMENT LOSS FROM OPERATIONS	<u>\$ (1,320)</u>	<u>\$ (2,212)</u>

U.S. Segment - three months ended March 31, 2019 compared to the three months ended March 31, 2018

Net revenue. Net revenue was approximately \$6.8 million for both the three months ended March 31, 2019 and 2018. However, end user demand, which represents units purchased by physicians and pharmacies from our distributors, increased 10% in the three months ended March 31, 2019, increasing to 939 units compared to 851 units in the three months ended March 31, 2018.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization decreased by approximately \$20,000, or 3%, to approximately \$690,000 for the three months ended March 31, 2019 compared to approximately \$710,000 for the three months ended March 31, 2018.

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$200,000, or 13%, to approximately \$1.4 million for the three months ended March 31, 2019, compared to approximately \$1.6 million for the three months ended March 31, 2018. The decrease was primarily attributable to decreases in costs associated with pharmacovigilance and scientific communications.

General and administrative expenses. General and administrative expenses decreased by approximately \$400,000, or 17%, to approximately \$1.9 million for the three months ended March 31, 2019, compared to approximately \$2.3 million for the three months ended March 31, 2018. The decrease was primarily attributable to decreases in legal fees and personnel costs.

Sales and marketing expenses. Sales and marketing expenses decreased by approximately \$400,000, or 9%, to approximately \$4.0 million for the three months ended March 31, 2019, compared to approximately \$4.4 million for the three months ended March 31, 2018. The decrease was primarily attributable to a decrease of approximately \$470,000 in personnel costs offset by an increase of approximately \$120,000 in marketing costs.

International Segment

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
NET REVENUE	\$ 6,124	\$ 2,825
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(915)	(391)
GROSS PROFIT	5,209	2,434
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,170	950
GENERAL AND ADMINISTRATIVE EXPENSES	988	907
SALES AND MARKETING EXPENSES	1,705	1,278
OPERATING EXPENSES	3,863	3,135
SEGMENT INCOME (LOSS) FROM OPERATIONS	\$ 1,346	\$ (701)

International Segment - three months ended March 31, 2019 compared to the three months ended March 31, 2018

Net revenue. Net revenue increased by approximately \$3.3 million, or 118%, to approximately \$6.1 million for the three months ended March 31, 2019, compared to approximately \$2.8 million for the three months ended March 31, 2018. The increase was primarily attributable to revenue increases of approximately \$1.7 million where we sell direct and \$1.6 million where we sell to distributors.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization, increased by approximately \$530,000, or 136%, to approximately \$920,000 for the three months ended March 31, 2019 compared to approximately \$390,000 for the three months ended March 31, 2018. The increase was primarily attributable to increased sales in both the markets where we sell direct and the markets where we sell to distributors.

Research, development and medical affairs expenses. Research, development and medical affairs expenses increased by approximately \$250,000, or 26%, to approximately \$1.2 million for the three months ended March 31, 2019, compared to approximately \$950,000 for the three months ended March 31, 2018. The increase was primarily related to our ongoing clinical studies.

General and administrative expenses. General and administrative expenses increased by approximately \$80,000, or 9%, to approximately \$990,000 for the three months ended March 31, 2019, compared to approximately \$910,000 for the three months ended March 31, 2018.

Sales and marketing expenses. Sales and marketing expenses increased by approximately \$400,000, or 31%, to approximately \$1.7 million for the three months ended March 31, 2019, compared to approximately \$1.3 million for the three months ended March 31, 2018. The increase was primarily attributable to increases of approximately \$220,000 in personnel costs and \$160,000 in market access costs.

Other Segment

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
NET REVENUE	\$ —	\$ —
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	—	—
GROSS PROFIT	—	—
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	130	232
GENERAL AND ADMINISTRATIVE EXPENSES	472	655
SALES AND MARKETING EXPENSES	167	320
DEPRECIATION AND AMORTIZATION	652	649
OPERATING EXPENSES	1,421	1,856
SEGMENT LOSS FROM OPERATIONS	\$ (1,421)	\$ (1,856)

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, was approximately \$770,000 and \$1.2 million for three months ended March 31, 2019 and 2018, respectively.

Depreciation and amortization was approximately \$650,000 for three months ended March 31, 2019 and 2018.

Liquidity and Capital Resources

Since inception, we have incurred recurring losses, negative cash flow from operations and have accumulated a deficit of \$379.9 million through March 31, 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 March 31, 2019, we had approximately \$13.1 million in cash and cash equivalents. Due to the limited revenue generated by ILUVIEN to date, we may have to raise additional capital to fund the continued commercialization of ILUVIEN. If we are unable to raise additional financing, we will need to adjust our commercial plans so that we can continue to operate with our existing cash resources. The actual amount of funds that we will need will depend on many factors, some of which are beyond our control. We may need funds sooner than currently anticipated.

We cannot be sure that additional financing will be available when needed or that, if available, the additional financing would be obtained on terms favorable to us or our stockholders. If we were to raise additional funds by issuing equity securities, substantial dilution to existing stockholders would likely result and the terms of any new equity securities may have a preference over our common stock. If we were to attempt to raise additional funds through strategic collaboration agreements we may not be successful in obtaining collaboration agreements, or in receiving milestone or royalty payments under those agreements. If we were to attempt to raise additional funds through debt financing, (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 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 three months ended March 31, 2019, cash provided by our operations was approximately \$280,000. The cash provided by our operations was primarily due to our net increase in our working capital. Accounts receivable decreased by \$1.8 million and inventory decreased by \$530,000. These net cash increases were offset by a net increase of \$560,000 in accounts payable, accrued expenses and other current liabilities and an increase of \$380,000 in prepaid expenses and other current assets. Further impacting our cash provided by operations was our net loss of \$2.8 million, which was offset by \$770,000 of non-cash stock-based compensation expense, \$650,000 for non-cash depreciation and amortization and \$210,000 for non-cash interest expense associated with the amortization of our debt discount.

For the three months ended March 31, 2018, cash used in our operations was \$5.0 million. The cash used in our operations was primarily due to our net loss of \$7.7 million, offset by the \$1.8 million loss on our early extinguishment of debt, \$1.2 million of non-cash stock-based compensation expense, \$650,000 for non-cash depreciation and amortization and \$210,000 for non-cash interest expense associated with the amortization of our debt discount. Cash used in operations for the three months ended March 31, 2018 was further affected by an increase in accounts receivable of \$870,000 and a net decrease in accounts payable, accrued expenses and other current liabilities of approximately \$920,000. These amounts were offset by decreases of \$310,000 in prepaid and other current assets and \$300,000 of inventory.

For the three months ended March 31, 2019, net cash used in our investing activities was approximately \$15,000.

For the three months ended March 31, 2018, net cash used in our investing activities was approximately \$90,000.

For the three months ended March 31, 2019, net cash provided by our financing activities was approximately \$110,000, which is due to payments of finance lease obligations.

For the three months ended March 31, 2018, net cash provided by our financing activities was approximately \$1.2 million, which is primarily due to entering into the \$40.0 million 2018 Loan Agreement with Solar Capital, offset by paying off the \$35.0 million Hercules Loan Agreement and payment of related debt costs of \$3.7 million.

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 March 31, 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 three months ended March 31, 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 which could affect our business, financial condition, results of operations and future operations and could cause our actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Quarterly Report on Form 10-Q. There have been no material changes in our risk factors subsequent to the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 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.

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

Exhibit Number	Description
3.1	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).
3.2	Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, as filed on November 5, 2015 and incorporated herein by reference).
101.57*	Amended and Restated Succession and Consulting Agreement, dated as of March 27, 2019, by and between Alimera Sciences, Inc. and Kenneth Green, Ph.D.
31.1*	Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Link Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

* 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.

May 7, 2019

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

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

May 7, 2019

By: /s/ J. Philip Jones

J. Philip Jones
Chief Financial Officer
(Principal Financial and Accounting Officer)

**AMENDED AND RESTATED
SUCCESSION AND CONSULTING AGREEMENT
WITH
ALIMERA SCIENCES, INC.**

This Amended and Restated Succession and Consulting Agreement (this “*Agreement*”) is entered into by and between Alimera Sciences, Inc., a Delaware corporation (the “*Company*”), and Kenneth Green, Ph.D. (“*Green*”), as of March 27, 2019 (the “*Effective Date*”).

RECITALS:

WHEREAS, the Company is engaged in the business of developing, marketing and selling ophthalmic pharmaceuticals in the United States and throughout the world;

WHEREAS, the Company and Green previously entered into that certain Amended and Restated Employment Agreement, dated as of October 23, 2014 (the “*Prior Employment Agreement*”);

WHEREAS, the Company and Green previously entered into that certain Succession and Consulting Agreement, dated as of November 28, 2018 (the “*Prior Succession Agreement*”);

WHEREAS, the Company and Green desire that Green continue to serve as Senior Vice President, Chief Scientific Officer and Global Head of Research and Development, an employee of the Company, for an additional month through April 30, 2019 pursuant to the Prior Employment Agreement; and

WHEREAS, the Company and Green desire that, beginning on May 1, 2019 (as extended by one month from April 1, 2019 as provided in this Agreement), Green shall terminate employment as an employee of the Company and shall thereafter provide consulting services to the Company as an independent contractor and not an employee;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein, the parties, intending to be legally bound, agree as follows:

AGREEMENT:

SECTION 1. EFFECTIVE DATE; TRANSITION

This Agreement is effective as of the Effective Date. The terms and conditions stated in the Prior Employment Agreement shall remain in effect through April 30, 2019. Effective May 1, 2019, (the “*Transition Date*”), Green shall (a) relinquish the titles and positions of Senior Vice President, Chief Scientific Officer and Global Head of Research and Development of the Company and no longer be an employee of the Company; and (b) become a consultant to the Company as an independent contractor, in accordance with and pursuant to the terms of this Agreement.

SECTION 2. DEFINITIONS

“*Board*” means the Board of Directors of the Company.

“*Cause*” means: (i) Green’s gross negligence or willful misconduct with respect to his consulting services to the Company, including violation of any material policy of the Company that is not cured within 30 days after written notice thereof is given to Green by the Company; (ii) Green’s conviction of, or entering a guilty plea or plea of no contest with respect to, a felony; or (iii) Green’s engagement in any material breach of the terms of this Agreement or fails to fulfill his responsibilities under this Agreement and such breach or failure, as the case may be, is not cured, or is not capable of being cured, within 30 days after written notice thereof is given to Green by the Company.

“*Code*” shall mean the Internal Revenue Code of 1986, as amended.

“*Competing Business*” means any business which develops, sells, or markets ophthalmic pharmaceuticals that (a) use steroids to treat diseases of the posterior segment of the eye or (b) treat diseases of the retina.

“*Disability*” means a condition which renders Green unable (as determined by the Board in good faith after consultation with a physician mutually selected by Green and the Board) to regularly perform his duties hereunder by reason of illness or injury for a period of more than six consecutive months with or without reasonable accommodation.

“*Equity*” means (i) all shares of capital stock of the Company; (ii) all options and other rights to purchase shares of capital stock of the Company; and (iii) all restricted stock units.

“*Good Reason*” shall mean any breach by the Company of this Agreement that is material and that is not cured within 30 days after written notice thereof to the Company from Green.

“*Restricted Period*” means the 11-month period beginning on the date that Green’s service as a consultant to the Company is terminated pursuant to the terms of this Agreement and a Separation occurs.

“*Section 409A*” means Code Section 409A, as amended, and the standards, regulations, or other guidance promulgated thereunder.

“*Separation*” means a “separation from service,” as defined in the regulations under Section 409A of the Code.

SECTION 3. TITLE, POWERS AND RESPONSIBILITIES

(a) Titles. Green shall continue to serve as the Senior Vice President, Chief Scientific Officer and Global Head of Research and Development of the Company until the Transition Date, when he shall (i) relinquish such titles and positions, (ii) terminate employment as an employee of the Company, and (iii) become a consultant to the Company, all in accordance with and pursuant to the terms of this Agreement.

(b) Powers and Responsibilities as a Consultant. In Green’s role as a consultant to the Company, he shall have such powers and duties as are provided in this Agreement and as are reasonably requested by the Board or the Company’s Chief Executive Officer (the “*CEO*”) on and after the Transition Date, all in accordance with and pursuant to the terms of this Agreement. Green shall provide services as an independent contractor and not as an employee, agent, or representative of the Company.

(c) Reporting Relationship as a Consultant. In his role as a consultant, Green shall report to the CEO.

(d) Term of Service as a Consultant. Subject to the terms and conditions of this Agreement and provided that Green remain an employee of the Company through the Transition Date pursuant to the Prior Employment Agreement, Green shall serve as a consultant to the Company from the Transition Date through April 30, 2020, provided that either party may terminate this Agreement without Cause by giving notice of such termination (subject to Section 5). Notwithstanding the foregoing, (x) if the Company terminates Green’s service as a consultant for Cause, the term of Green’s service as a consultant shall end on the date specified by the Company that is consistent with the definition of Cause in this Agreement; or (y) if Green resigns without Good Reason at any time, the term of Green’s service as a consultant shall end ten (10) days after Green gives notice of such termination (but in no event later than April 30, 2020). This Agreement shall also terminate in the event of Disability or death as provided in Sections 5(d) and 5(e), respectively. The period during which Green is providing services to the Company as a consultant under this Agreement is referred to as the “*Consulting Term*.”

(e) Time Commitment as a Consultant. During the Consulting Term, Green shall provide consulting services to the Company for thirty-six (36) business days during the one-year period beginning on the Transition Date and continuing through April 30, 2020, as reasonably requested by the CEO or the Board. Such services shall include advising the Company on scientific and medical matters related to the Company’s products as well as new products or opportunities that the Company may be considering or actively developing. The Company and Green anticipate that the time that Green devotes to performing consulting services for the Company will be no more than 20% of the average level of services that Green performed for the Company over the thirty-six (36) months immediately preceding the Transition Date.

SECTION 4. COMPENSATION, BENEFITS, ETC.

(a) Compensation as Consultant. Effective on the Transition Date, Green’s compensation as a consultant (“*Consulting Compensation*”) shall be \$406,000 for the 12-month period beginning on the Transition Date and ending on April 30, 2020, which amount may be reviewed and increased at the discretion of the Board or any committee of the Board duly authorized to take such action. The Consulting Compensation shall be payable in equal monthly installments on the 15th day of each month during the Consulting Term (with the final payment to be made on April 15, 2020). During the Consulting Term, Green agrees to pay all taxes due on amounts paid to him for services as a consultant and is solely responsible for timely remittance to appropriate authorities of all federal, state, and local taxes and changes incident to the payment of compensation for such consulting services. Without limitation, the parties hereto agree that the Company shall not be responsible for, nor withhold, any taxes, assessments, or other fees incurred by or on

behalf of Green with respect to his consulting services, including federal, state, and local withholding taxes.

(b) Employee Benefit Plans; COBRA.

(1) Until the Transition Date, Green shall continue his participation in the employee benefit plans, programs, and policies maintained by the Company in accordance with the terms and conditions to participate in such plans, programs, and policies as in effect from time to time.

(2) Upon and after the Transition Date, Green shall no longer be eligible to participate in the employee benefit plans, programs, and policies maintained by the Company, other than through continuation coverage opportunities afforded under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**").

(3) During the Consulting Term, if Green timely elects to continue coverage under the Company's group health plan pursuant to COBRA, then, on behalf of Green, the Company shall pay (on a monthly basis) the medical COBRA premiums of Green in the same percentage as the Company pays the premiums for active employees under the Company group health insurance plan; *provided, however*, that this obligation of the Company shall cease on the earlier of (A) the date when Green is no longer eligible for COBRA upon his being eligible for Medicare, (B) the date that Green is eligible to be covered under another substantially equivalent group health insurance plan provided by a subsequent employer, or (C) the date that Green is otherwise no longer eligible for COBRA coverage under the Company's group health insurance plan.

(c) Equity. During the Consulting Term, Green shall forego his eligibility for all regular Equity awards generally awarded to executive management of the Company; *provided, however*, that all of Green's outstanding Equity as of the Transition Date shall continue to vest and remain outstanding as long as Green is providing services to the Company as a consultant.

(d) Expense Reimbursements. Green shall have the right to expense reimbursements in connection with his service as a consultant in accordance with the Company's standard policy on expense reimbursements. Any reimbursement shall (i) not be affected by any other expenses that are eligible for reimbursement in any calendar year and (ii) not be subject to liquidation or exchange for another benefit.

(e) Indemnification. The Company shall, to the maximum extent permitted by applicable law and the Company's governing documents, indemnify Green and hold Green harmless from and against any claim, loss, or cause of action arising from or out of Green's performance as a consultant for the Company. If any claim is asserted hereunder against Green (other than by the Company), the Company shall pay Green's legal expenses (or cause such expenses to be paid) on a quarterly basis, provided that Green shall reimburse the Company, in a timely manner, for such amounts if Green shall be found by a final, non-appealable order of a court of competent jurisdiction not to be entitled to indemnification. The indemnification obligations of the Company in this paragraph shall survive any termination of this Agreement and shall be supplemental to any other rights to indemnification from the Company to which Green is entitled.

SECTION 5. TERMINATION OF SERVICE AS A CONSULTANT

(a) General. If Green is subject to a termination of service as a consultant without Cause or Green resigns as a consultant for Good Reason and a Separation occurs, then Green will be entitled to the benefits described in this Section 5. However, Green will not be entitled to any of the benefits described in this Section 5 unless Green has (i) returned all Company Property (as defined below) in Green's possession, and (ii) executed a general release of all claims that Green may have against the Company or persons affiliated with the Company in a form prescribed by the Company (the "**Release**"). Green must execute and return the Release on or before the date specified by the Company in the Release (the "**Release Deadline**"). The Release Deadline will in no event be later than fifty (50) days after Green's Separation. If Green fails to return the Release on or before the Release Deadline, or if Green revokes the Release, then Green will not be entitled to the benefits described in this Section 5.

(b) Termination of Consulting Services by the Company without Cause or by Green for Good Reason. If the Company terminates Green's service as a consultant without Cause or Green resigns for Good Reason and a Separation occurs, the Company shall pay Green his earned but unpaid Consulting Compensation *plus* the remainder of the Consulting Compensation scheduled to be paid through April 15, 2020. Such payments shall be made in substantially equal monthly installments at the same time and in the same manner as Green would have received Consulting Compensation if he had continued service as a consultant. Notwithstanding the foregoing, the payments shall be made at times and in a manner that complies with Section 409A of the Internal Revenue Code, to the extent applicable. In addition, the Company shall make any COBRA payments for Green to the end of the period specified in Section 4(b)(3).

(c) Termination by the Company for Cause or by Green without Good Reason. If the Company terminates Green's service for Cause or Green resigns without Good Reason, the Company's only obligation to Green to pay Consulting Compensation under this Agreement shall be to pay Green his earned but unpaid Consulting Compensation, if any, up to the date Green's service terminates.

(d) Termination for Disability. The Company shall have the right to terminate Green's service as a consultant on or after the date Green has a Disability, and such a termination shall be treated as a termination without Cause under this Agreement.

(e) Death. A termination of Green's service as a consultant as a result of his death shall be treated as a termination without Cause under this Agreement.

SECTION 6. COVENANTS BY CONSULTANT

(a) Company Property. Upon the termination of Green's service for any reason or, if earlier, upon the Company's request, Green shall promptly return all Company Property which had been entrusted or made available to Green by the Company, where the term "**Company Property**" means all records, files, memoranda, reports, price lists, customer lists, drawings, plans, sketches, keys, codes, computer hardware and software and other property of any kind or description prepared, used or possessed by Green during Green's service by the Company (and any duplicates of any such Company Property) together with any and all information, ideas, concepts, discoveries, and inventions and the like conceived, made, developed or acquired at any time by Green individually or, with others during Green's service which relate to the Company or its products or services.

(b) Trade Secrets. Green agrees that Green shall hold in a fiduciary capacity for the benefit of the Company and its affiliates and shall not directly or indirectly use or disclose any Trade Secret that Green may have acquired (whether or not developed or compiled by Green and whether or not Green is authorized to have access to such information) during the term of Green's service by the Company or any of its predecessors for so long as such information remains a Trade Secret, where the term "**Trade Secret**" means information, including technical or non-technical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a drawing or a process that (1) derives economic value, actual or potential, from not being generally known to, and not being generally readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use and (2) is the subject of reasonable efforts by the Company and any of its affiliates to maintain its secrecy. This Section 6(b) is intended to provide rights to the Company and its affiliates which are in addition to, not in lieu of, those rights the Company and its affiliates have under the common law or applicable statutes for the protection of trade secrets.

(c) Confidential Information. Green, while providing services to the Company or its affiliates and for the three-year period thereafter, shall hold in a fiduciary capacity for the benefit of the Company and its affiliates, and shall not directly or indirectly use or disclose, any Confidential Information that Green may have acquired (whether or not developed or compiled by Green and whether or not Green is authorized to have access to such information) during the term of, and in the course of, or as a result of Green's service by the Company or its predecessors without the prior written consent of the Company unless and except to the extent that such disclosure is (i) made in the ordinary course of Green's performance of his duties under this Agreement or (ii) required by any subpoena or other legal process (in which event Green will give the Company prompt notice of such subpoena or other legal process in order to permit the Company to seek appropriate protective orders). For the purposes of this Agreement, the term "**Confidential Information**" means any secret, confidential, or proprietary information possessed by the Company or any of its affiliates, including trade secrets, customer or supplier lists, details of client or consultant contracts, current and anticipated customer requirements, pricing policies, price lists, market studies, business plans, operational methods, marketing plans, or strategies, product development techniques or flaws, computer software programs (including object code and source code), data and documentation data, base technologies, systems, structures and architectures, inventions and ideas, past, current and planned research and development, compilations, devices, methods, techniques, processes, financial information and data, business acquisition plans and new personnel acquisition plans (not otherwise included as a Trade Secret under this Agreement) that has not become generally available to the public, and the term "Confidential Information" may include future business plans, licensing strategies, advertising campaigns, information regarding customers or suppliers, executives, and independent contractors and the terms and conditions of this Agreement. Notwithstanding the provisions of this Section 6(c) to the contrary, Green shall be permitted to furnish this Agreement to a subsequent employer or prospective employer.

(d) Non-solicitation of Customers or Employees.

(1) Green (i) while providing services to the Company or any of its affiliates shall not, on Green's own behalf or on behalf of any person, firm, partnership, association, corporation, or business organization, entity, or enterprise (other than the Company or one of its affiliates), solicit business for a Competing Business from customers of the Company or any of its affiliates and (ii) during the Restricted Period shall not, on Green's own behalf or on behalf of any person, firm, partnership, association, corporation or business organization, entity or enterprise, solicit business for a Competing Business from customers or suppliers of the Company or any of its affiliates with whom Green, in the case of both clauses (i) and (ii) above, had or made material business contact within the course of Green's service by the Company within the 24-month period immediately preceding the beginning of the Restricted Period.

(2) Green (i) while providing services to the Company or any of its affiliates shall not, either directly or indirectly, call on, solicit, or attempt to induce any other officer, employee, or independent contractor of the Company or any of its affiliates to terminate his or her employment with such business and shall not assist any other person or entity in such a solicitation (regardless of whether any such officer, employee, or independent contractor would commit a breach of contract by terminating his or her employment), and (ii) during the Restricted Period, shall not, either directly or indirectly, call on, solicit, or attempt to induce any other officer, employee, or independent contractor of such business with whom Green had contact, knowledge of, or association in the course of Green's service with the Company or any of its predecessors or affiliates, as the case may be, during the 12-month period immediately preceding the beginning of the Restricted Period, to terminate his or her employment with the Company or any of its affiliates and shall not assist any other person or entity in such a solicitation (regardless of whether any such officer, employee, or independent contractor would commit a breach of contract by terminating his or her employment). Notwithstanding the foregoing, nothing shall prohibit any person from contacting Green about employment or other engagement during the Restricted Period, provided that Green does not solicit the contact.

(e) Non-competition Obligation.

(1) Without the prior written consent of the Company, Green, while providing services to the Company or any of its affiliates and thereafter until the end of the Restricted Period, whether by himself or itself, through an affiliate, in partnership or conjunction with, or as an employee, officer, director, manager, member, owner, consultant or agent of, any other person or entity within the geographical area in which the Company or any of its affiliates is actively engaged in developing, marketing and selling ophthalmic pharmaceuticals on the date of this Agreement, undertake, participate, or carry on or be engaged or have any financial or other interest in, or in any other manner advise or assist any other person or entity in connection with the operation of, a Competing Business. Notwithstanding the preceding

sentence, Green will not be prohibited from (i) owning less than 5% percent of any publicly traded corporation, whether or not such corporation is in a Competing Business or (ii) participating or engaging in any Competing Business if such participation or engagement is approved in writing by the Company in its sole discretion.

(2) Green, while providing services to the Company or any of its affiliates (but not during the Restricted Period), shall provide written notice of any consulting agreement or other consulting arrangement that Green enters into, within ten (10) days of the inception of such consulting agreement or other consulting arrangement.

(f) Reasonable and Continuing Obligations. Green agrees that Green's obligations under this Section 6 are obligations which will continue beyond the date Green's service terminates and that such obligations are reasonable, fair, and equitable in scope, terms and duration, are necessary to protect the Company's legitimate business interests, and are a material inducement to the Company to enter into this Agreement.

(g) Remedy for Breach. Green agrees that the remedies at law of the Company for any actual or threatened breach by Green of the covenants in this Section 6 would be inadequate and that the Company shall be entitled to specific performance of the covenants in this Section 6, including entry of a temporary restraining order in state or federal court, preliminary and permanent injunctive relief against activities in violation of this Section 6, or both, or other appropriate judicial remedy, writ or order, in addition to any damages and legal expenses which the Company may be legally entitled to recover. The Company agrees, however, to give Green and, if known, Green's attorney reasonable advance notice of any legal proceeding, including any application for a temporary restraining order, relating to an attempt to enforce the covenants in this Section 6 against Green. Green acknowledges and agrees that the covenants in this Section 6 shall be construed as agreements independent of any other provision of this Agreement or any other agreement between the Company and Green, and that the existence of any claim or cause of action by Green against the Company, whether predicated upon this Agreement or any other agreement, shall not constitute a defense to the enforcement by the Company of such covenants.

(h) Termination of Restrictive Covenants. In addition to any other right or remedy available to Green, Green shall no longer be bound by any of the restrictions set forth in this Section 6 if the Company fails to pay or to provide Green when due the amounts and benefits due hereunder or under any agreement ancillary hereto, and Green's pursuit of such remedy shall not relieve the Company from its obligations to pay and to provide such amounts and benefits to Green.

(i) Ownership of Inventions, Discoveries, Improvements, Etc.

(1) Green shall promptly disclose and describe to the Company all inventions, improvements, discoveries and technical developments, whether or not patentable, made or conceived by Green, either alone or with others, during such time as Green is providing services to the Company, and within one year after the date upon such service terminates, and that (i) are based in whole or in material part upon Confidential Information, or (ii) result from, or are suggested by, any work that may be done by Green for or on behalf of the Company ("**Inventions**"). Green hereby assigns and agrees to assign to the Company Green's entire right, title, and interest in and to such Inventions (the "**Assigned Inventions**"), and agrees to cooperate with the Company both during and after such time as Green is providing services to the Company in the procurement and maintenance, at the Company's expense and at its direction, of patents, copyright registrations, and/or protection of the Company's rights in such Inventions. Green shall keep and maintain adequate and current written records of all such Inventions, which shall be and remain the property of the Company.

(2) If a patent application, trademark registration, or copyright registration is filed by Green or on Green's behalf, or a copyright notice indicating Green's authorship is used by Green or on Green's behalf, within one year after the date on which Green's service with the Company terminates, that describes or identifies any Invention within the scope of Green's work for the Company or that otherwise related to a portion of the Company's business (or any division thereof) of which Green had knowledge during such time as Green was employed with or otherwise provided service to the Company, it is to be conclusively presumed that the Invention was conceived by Green during the such time as Green was employed with or otherwise provided services to the Company. Green agrees to notify the Company promptly of any such application or registration and to assign to the Company Green's entire right, title, and interest in such Invention and in such application or registration.

(3) If (i) Green uses or discloses any of Green's own or any third party's confidential information or intellectual property (collectively, "**Restricted Materials**") when acting within the scope of Green's service (or otherwise on behalf of the Company), or (ii) any Assigned Invention cannot be fully made, used, reproduced or otherwise exploited without using or violating any Restricted Materials, Green hereby grants and agrees to grant to the Company a perpetual, irrevocable, worldwide, royalty-free, non-exclusive, sublicensable right and license to exploit and exercise all such Restricted Materials and intellectual property rights therein. Green will not use or disclose any Restricted Materials for which Green is not fully authorized to grant the foregoing license.

(4) To the extent allowed by applicable law, the terms of this Section 6(i) include all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as moral rights, artist's rights, droit moral or the like (collectively, "**Moral Rights**"). To the extent Green retains any such Moral Rights under applicable law, Green hereby ratifies and consents to any action that may be taken with respect to such Moral Rights by or authorized by the Company and agrees not to assert any Moral Rights with respect thereto. Green will confirm any such ratification, consent, or agreement from time to time as requested by the Company.

(j) Securities Trading Policy. Green agrees to comply with the Company's Securities Trading Policy during the Restricted Period, and thereafter if Green has become aware of material nonpublic information during his service as a consultant or as an employee, until such information has become public or is no longer material.

(k) Release. On or before the Transition Date, Green shall enter into a general release that is reasonably satisfactory to the parties to this Agreement in which he releases all claims against the Company, with certain customary exceptions, including the obligations of the Company to Green in this Agreement.

SECTION 7. MISCELLANEOUS

(a) Notices. Notices and all other communications shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail. Notices to the Company shall be sent to:

Alimera Sciences, Inc.
6120 Windward Parkway, Suite 290
Alpharetta, Georgia 30005
Attention: Chief Executive Officer
Facsimile: 678-990-5744

Notices and communications to Green shall be sent to the address Green most recently provided to the Company.

(b) No Waiver. Except for the notice described in Section 7(a), no failure by either the Company or Green at any time to give notice of any breach by the other of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of any provisions or conditions of this Agreement.

(c) Tax Matters.

(1) Notwithstanding any provision in the Agreement to the contrary, this Agreement shall at all times be interpreted and operated in compliance with the requirements of Section 409A, to the extent applicable. Specifically, to the extent necessary to avoid the imposition of tax on Green under Section 409A, payments payable upon a termination or Separation shall be suspended until six (6) months and one day following the effective date of termination or Separation, if, immediately prior to Green's termination or Separation, Green is a "specified employee" (within the meaning of Section 409A) and Section 409A would require the delay of such payment to avoid any penalties thereunder. Each payment hereunder shall be deemed a separate payment for purposes of Section 409A. The parties intend that no payment pursuant to this Agreement shall give rise to any adverse tax consequences to either party pursuant to Section 409A; *provided, however*, that Green acknowledges that the Company does not guarantee any particular tax treatment and that Green is solely responsible for any taxes he incurs pursuant to Section 409A, if any, as a result of this Agreement.

(2) Certain payments, distributions, and acceleration of vesting for Green made in connection with an acquisition of ownership or effective control of the Company or ownership of a substantial portion of the Company's assets (within the meaning of section 280G of the Code and the regulations thereunder), can be subject to certain tax penalties under sections 280G and 4999 of the Code. This includes amounts payable or distributable pursuant to the terms of this Agreement or otherwise. The excise tax on any such payments, determined under sections 280G and 4999 of the Code, generally applies if all of Green's parachute payments together equal or exceed 300% of his average annual W-2 compensation from the Company. Green is solely responsible for any taxes he incurs pursuant to sections 280G and 4999 of the Code.

(d) Georgia Law. This Agreement shall be governed by the laws of the state of Georgia without regard to its provisions relating to choice of law or conflicts of law. Any litigation that may be brought by either the Company or Green involving the enforcement of this Agreement or any rights, duties, or obligations under this Agreement, shall be brought exclusively in a Georgia state court or United States District Court in Georgia.

(e) Assignment. This Agreement shall be binding upon and inure to the benefit of the Company and any successor in interest to the Company. The Company may assign this Agreement to any affiliate or successor that acquires all or substantially all of the assets and business of the Company or a majority of the voting interests of the Company, and no such assignment shall be treated as a termination of Green's service under this Agreement. Green's rights and obligations under this Agreement are personal and shall not be assigned or transferred.

(f) Other Agreements. This Agreement replaces and merges any and all previous agreements and understandings regarding all the terms and conditions of Green's employment relationship with the Company (except as otherwise provided in this Agreement), and this Agreement constitutes the entire agreement between the Company and Green with respect to such terms and conditions.

(g) Amendment. No amendment to this Agreement shall be effective unless it is in writing and signed by the Company and by Green.

(h) Invalidity. If any part of this Agreement is held by a court of competent jurisdiction to be invalid or otherwise unenforceable, the remaining part shall be unaffected and shall continue in full force and effect, and the invalid or otherwise unenforceable part shall be deemed not to be part of this Agreement.

(i) Litigation. In the event that either party to this Agreement institutes litigation against the other party to enforce his or its respective rights under this Agreement, each party shall pay its own costs and expenses incurred in connection with such litigation.

(j) Interpretation. The recitals to this Agreement shall be taken into account in the construction or interpretation of this Agreement. The words “include,” “includes,” and “including” are deemed to be followed by the phrase “without limitation.” The captions or headings of the Sections and other subdivisions of this Agreement are inserted only as a matter of convenience or reference and have no effect on the meaning of the provisions of those Sections or subdivisions. If the provisions of this Agreement require judicial interpretation, the parties agree that the judicial body interpreting or construing the Agreement may not apply the assumption that the terms must be more strictly construed against one party by reason of the rule of construction that an instrument is to be construed more strictly against the party that itself or through its agents prepared the instrument.

(k) Survival. The respective indemnities, representations, warranties, agreements, and covenants of the Company and Green contained in this Agreement shall survive the termination of this Agreement and shall remain in full force and effect.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Company and Green have executed this Agreement in multiple originals effective as of the as of the date stated in the preamble above.

ALIMERA SCIENCES, INC. GREEN

By: /s/ Richard S. Eiswirth, Jr.
Richard S. Eiswirth, Jr., President and CEO

By: /s/ Kenneth Green, Ph.D.
Kenneth Green, Ph.D.

Date: March 27, 2019

Date: March 27, 2019

*Signature Page to Amended and Restated Succession and Consulting Agreement
of Kenneth Green, Ph.D.*

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q of Alimera Sciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision; to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Richard S. Eiswirth, Jr.

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, 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: May 7, 2019

/s/ J. Philip Jones

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 March 31, 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, 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: May 7, 2019

/s/ Richard S. Eiswirth, Jr.

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

Date: May 7, 2019

/s/ J. Philip Jones

J. Philip Jones
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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