ORALABS HOLDING CORP
Form SC 13D/A
April 11, 2006

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

SCHEDULE 13D/A
Under the securities Exchange Act of 1934
(Amendment No. 3)*

OraLabs Holding Corp.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

684029200

(CUSIP Number)

Douglas B. Koff, Esq., Koff, Corn & Berger, P.C.
303 E. 17th Ave., Ste. 940, Denver, CO 80203 (303) 861-1166

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

March 31, 2006

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of ss.ss. 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box [_]

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See ss.240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect tot the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SEC 1746 (3-06) Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

CUSIP No. 684029200

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).

   Gary H. Schlatter

2. Check the Appropriate Box if a Member of a Group (See Instructions)

   (a) .....

   (b) .....

3. SEC Use Only.....

4. Source of Funds (See Instructions) ....OO.....

5. Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e).....

6. Citizenship or Place of Organization ..USA.....

Number of Shares Bene-ficially by Owned by Each Reporting Person With	7.	Sole Voting Power.....3,629,350.....
	8.	Shared Voting Power.....100,000.....
	9.	Sole Dispositive Power.....3,629,350.....
	10.	Shared Dispositive Power...100,000.....

11. Aggregate Amount Beneficially Owned by Each Reporting Person.....3,729,350.....

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions).....

13. Percent of Class Represented by Amount in Row (11)....79.9%.....

14. Type of Reporting Person (See Instructions)
    .....IN.....
    .....
    .....

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.....

INFORMATION SHEET FOR SCHEDULE 13D

Item No.1 Security and Issuer. The class of equity securities to which this statement relates is common stock of OraLabs Holding Corp. (the "Company"). The principal executive offices of the Company are located at 18685 E. Plaza Drive, Parker, Colorado 80134.

Item No.2 Identity and Background. (a) Gary H. Schlatter; (b) 18685 E. Plaza Drive, Parker, Colorado 80134; (c) Mr. Schlatter's present principal occupation is the chief executive officer of the Company, whose principal business is the manufacture and sale of breath products and lip balm products; (d) During the last five years, Mr. Schlatter has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors); (e) During the last five years, Mr. Schlatter was not a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which he was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws; (f) Mr. Schlatter is a citizen of the United States.

Item No.3 Source and Amount of Funds or Other Consideration. Under a Stock Exchange Agreement dated March 31, 2006 entered into between OraLabs Holding Corp., Partner Success Holdings Limited ("PSHL"), and the owners of PSHL, Mr. Schlatter agreed that if closing of the transactions contemplated in the Stock Exchange Agreement occurs, all of the shares owned by Mr. Schlatter individually in OraLabs Holding Corp. would be redeemed by the Company and the Company would transfer to Mr. Schlatter all of the Company's shares that it owns in its wholly-owned subsidiary, OraLabs, Inc. This Schedule 13D is not being filed with respect to any proposed acquisition of shares of OraLabs Holding Corp. by the undersigned, but rather is being filed with respect to certain contracts described in Item 6 below.

Item No.4 Purpose of Transaction. The purpose of the proposed transaction is not for the acquisition of any securities of the Company by the undersigned. If the transactions described in the Stock Exchange Agreement are consummated, it would result in a reorganization of the Company under which: (i) the business of the Company would be that of PSHL rather than that of OraLabs, Inc., the Company's subsidiary, and the business previously conducted by OraLabs would be wholly-owned by Mr. Schlatter as a private company; (ii) substantially all of the assets of the Company, which is the ownership of its wholly-owned subsidiary, would be transferred to Mr. Schlatter and the Company would redeem all of the shares in the Company owned individually by Mr. Schlatter; (iii) the Company would acquire all of the assets of PSHL through its acquisition of ownership of that entity as a wholly-owned subsidiary; (iv) all existing management and board members would resign and new management and a new slate of directors would be elected who were nominated by principals of PSHL; and (v) control of the Company

would change from Mr. Schlatter to the PSHL principals, or their designees, who will acquire 94% of the outstanding shares of the Company. The Company's common stock will cease to be listed on the NASDAQ Capital Market unless a new listing application is approved by the closing date.

Item No.5 Interest in Securities of the Issuer. (a) The aggregate number of securities owned by Mr. Schlatter is 3,729,350, which comprises approximately 79.9% of the common stock of the Company and which includes 100,000 shares held in The Schlatter Family Partnership, of which Mr. Schlatter and his wife, Suzan M. Schlatter, are general partners; (b) Mr. Schlatter has the sole power to vote and to direct the vote of all of the securities being reported upon, except for the 100,000 shares in The Schlatter Family Partnership. Ms. Schlatter resides at 4904 South Elizabeth Circle, Englewood, Colorado 80113. She is an employee of OraLabs, Inc. During the last five years, Ms. Schlatter has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors). During the last five years, Ms. Schlatter was not a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which he was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws. Ms. Schlatter is a citizen of the United States. Mr. Schlatter disclaims any beneficial interest in securities of the Company titled in his spouse's name and in her capacity as a general partner of The Schlatter Family Partnership, and the filing of this schedule shall not be construed as an admission that he is, for the purposes of Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended, or otherwise, the beneficial owner of such securities; (c) Mr. Schlatter did not engage in any other transactions in the class of securities reported on during the past 60 days; (d) none; (e) not applicable.

Item No.6 Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer. The Stock Exchange Agreement described above constitutes a contract and arrangement under which Mr. Schlatter has agreed to vote his shares in favor of the transactions contemplated by that Agreement, and specifically but not as a limitation, Mr. Schlatter agrees to vote in favor of the transactions under which OraLabs will acquire the business of PSHL, issue shares to PSHL principals (or their designees) in an amount equal to 94% of all outstanding shares of the Company, redeem all of the shares of the Company owned individually by Mr. Schlatter, and transfer ownership of the Company's wholly-owned subsidiary to Mr. Schlatter. A Stock Exchange Agreement dated February 23, 2005 between the Company, NVC Lighting Investment Holdings Limited and others was terminated on November 9, 2005.

Item No.7 Materials to be Filed as Exhibits. The Stock Exchange Agreement entered into between the Company, PSHL, and PSHL Shareholders, and consented to by OraLabs, Inc. and the undersigned, dated March 31, 2006, is attached hereto as Exhibit 1.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and

correct.

April 10, 2006

By: /s/ Gary H. Schlatter

Gary H. Schlatter

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EXHIBIT 1

(STOCK EXCHANGE AGREEMENT)

THE SECURITIES TO BE ISSUED BY ORALABS HOLDING CORP. ("ORALABS") UNDER THIS STOCK EXCHANGE AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND WILL BE ISSUED IN RELIANCE UPON REGULATION S AND OTHER EXEMPTIONS UNDER THE SECURITIES ACT. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR INADEQUACY OF THIS STOCK EXCHANGE AGREEMENT AND OTHER RELATED DOCUMENTS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

STOCK EXCHANGE AGREEMENT

THIS STOCK EXCHANGE AGREEMENT (hereinafter referred to as this "Agreement"), is entered into as of this 31st day of March 2006, by and among OraLabs Holding Corp., a Colorado corporation ("OraLabs"); Partner Success Holdings Limited, a British Virgin Islands international business company ("PSHL"), and each of the shareholders of PSHL (the "Shareholders").

RECITALS

A. OraLabs is presently a registered public company with the United States Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (Commission File No. 000-23039).

B. The Shareholders own all 50,000 of the issued and outstanding ordinary shares of PSHL (the "PSHL Stock").

C. The Shareholders have agreed to transfer to OraLabs, and OraLabs has agreed to acquire the PSHL Stock from the Shareholders in exchange (the "Stock Exchange") for the number of shares of OraLabs $0.001 par value common stock (the "OraLabs Stock") that represents ninety-four percent (94%) of the total fully diluted issued and outstanding shares of OraLabs common stock calculated after giving effect to the OraLabs Redemption (as defined below), the issuance of 300,000 shares to the non-employee directors prior to the Closing, as described in Section 6.4 of this Agreement, and the exercise of any options prior to the Closing Date, subject to and pursuant to the terms and conditions set forth in this Agreement.

D. Immediately following the Closing (defined in Section 2.3) of the Stock Exchange, OraLabs will redeem all 3,629,350 shares of OraLabs common stock owned by Gary H. Schlatter in his individual name in exchange for the issuance to Gary Schlatter of all 100 shares of OraLabs, Inc. $0.001 par value common stock (the "OraLabs Redemption"). The OraLabs Redemption will be affected pursuant to the terms and conditions of the OraLabs Redemption Agreement.

E. PSHL will become a wholly-owned subsidiary of OraLabs upon closing of the Stock Exchange.

NOW THEREFORE, for and in consideration of the mutual covenants and agreements stated in the Recitals (which are incorporated herein) and as hereinafter set forth and the mutual benefits to the Parties to be derived herefrom, it is hereby agreed as follows:

ARTICLE I
DEFINITIONS

In addition to terms defined elsewhere in this Agreement, the following terms when used in this Agreement shall have the meanings indicated below:

"Affiliate" shall mean with respect to a specified Person, any other Person which, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with such Person, and without limiting the generality of the foregoing, includes, with respect to a Person (a) any other Person which beneficially owns or holds ten percent (10%) or more of any class of voting securities or other securities convertible into voting securities of such Person or beneficially owns or holds ten percent (10%) or more of any other equity interests in such Person, (b) any other Person with respect to which such Person beneficially owns or holds ten percent (10%) or more of any class of voting securities or other securities convertible into voting securities of such Person, or owns or holds ten percent (10%) or more of the equity interests of the other Person, and (c) any director or senior officer of such Person. For purposes of this definition, the term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Agreement" shall mean this Stock Exchange Agreement together with all exhibits and schedules referred to herein, which exhibits and schedules are incorporated herein and made a part hereof.

"Certificates" shall have the meaning set forth in Section 2.1.

"Closing" shall have the meaning set forth in Section 2.3.

"Closing Date" shall mean the date that the Closing takes place.

"Environmental Laws" shall mean all laws, regulations and other federal, state or local governmental requirements, and all applicable judgments, orders, writs, notices, decrees, permits, licenses, approvals, consents or injunctions relating to the generation, management, handling, transportation, treatment, disposal, storage, delivery, discharge, release or emission of any waste, pollutant or toxic or hazardous substance (including, without limitation, asbestos, radioactive material and pesticides).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Knowledge" shall mean, in the case of any Person who is an individual, knowledge that a reasonable individual under similar circumstances would have after such reasonable investigation and inquiry as such reasonable individual would under such similar circumstances make, and in the case of a Person other than an individual, the knowledge that a senior officer, director or manager of

such Person, or any other Person having responsibility for the particular subject matter at issue of such Person, would have after such reasonable investigation and inquiry as such senior officer, director, manager or responsible Person would under such similar circumstances make.

"Material Adverse Effect" shall mean any event or condition of any character which has had or could reasonably be expected to have a material adverse effect on the condition (financial or otherwise), results of operations, assets, liabilities, properties, or business of PSHL, the PSHL Subsidiary, OraLabs or the OraLabs Subsidiaries, as applicable.

"OraLabs Common Stock" shall mean the shares of OraLabs $0.001 par value per share common stock.

"OraLabs Contracts" shall have the meaning set forth in Section 5.18.

"OraLabs Exchange Documents" shall have the meaning set forth in Section 5.2.

"OraLabs Financial Statements" shall mean all of the financial statements included in the SEC Reports filed with the SEC since December 31, 2002.

"OraLabs Redemption" shall have the meaning set forth in the recitals.

"OraLabs Stock" shall have the meaning set forth in the recitals.

"OraLabs Subsidiaries" shall mean OraLabs, Inc. and O.H. Sub Corp.

"Ordinary Course of Business" shall mean the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

"Parties" shall mean OraLabs and the OraLabs Subsidiaries and PSHL and the PSHL Subsidiary.

"Person" shall mean any natural person, corporation, unincorporated organization, partnership, association, limited liability company, joint stock company, joint venture, trust or government, or any agency or political subdivision of any government or any other entity.

"PSHL Exchange Documents" shall have the meaning set forth in Section 3.2.

"PSHL Financial Statements" shall mean PSHL and the PSHL Subsidiary's (i) consolidated audited balance sheets at June 30, 2005 and 2004, and the related audited consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 2005 and 2004, together with notes to such statements and the opinion of Murrell, Hall, McIntosh & Company, PLLP and Henny Wee & Co., independent certified public accountants, with respect thereto and (ii) unaudited consolidated balance sheets, statements of operations, stockholders' equity and cash flows for the half year ended December 31, 2005 and any other such unaudited consolidated balance sheets and statements and pro forma information that PSHL delivers to OraLabs prior to the Closing.

"PSHL Contracts" - shall have the meaning set forth in Section 3.14.

"PSHL Schedules" shall mean each of the schedules from PSHL attached

hereto and incorporated herein to this Agreement.

"PSHL Stock" shall have the meaning set forth in the recitals.

"PSHL Subsidiary" shall mean Shanghai Chengtong Precision Strip Co., Limited. When official approval for the transformation of Shanghai Tuorong Precision Strip Co., Limited, organized in Shanghai, in the People's Republic of China, is obtained, Shanghai Tuorong Precision Strip Co., Limited into a foreign investment enterprise, which will become a subsidiary of PSHL and will thereafter be included in the term "PSHL Subsidiary".

"PSHL Tax Returns" has the meaning set forth in Section 3.7.

"SEC" shall mean the United States Securities and Exchange Commission.

"SEC Reports" shall mean the Forms 10-KSB, 10-QSB, 8-K, proxy statements, S-8 and other SEC filings required by the Exchange Act and Securities Act which have been filed by OraLabs with the SEC for the period beginning on January 1, 2002 and ending at the Closing Date.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Stock Exchange" shall have the meaning set forth in the recitals.

The words "hereof", "herein" and "hereunder" and the words of similar import shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The terms defined in the singular shall have a comparable meaning when used in the plural and vice versa.

ARTICLE II
PLAN OF EXCHANGE

2.1 The Stock Exchange. At the Closing (as defined in Section 2.3 below),

(a) the Shareholders hereby agree to assign, transfer, and deliver to OraLabs, free and clear of all liens, pledges, encumbrances, charges, restrictions, or claims of any kind, nature, or description, each certificate or certificates which represents the PSHL Stock (the "Certificates"), duly endorsed for transfer to OraLabs or accompanied by stock powers executed in blank by the Shareholders.

(b) OraLabs agrees to acquire the PSHL Stock and shall at the Closing issue and deliver in exchange therefor the OraLabs Stock. The OraLabs Stock will be issued to the Shareholders and their designees in the names and denominations as set forth on Schedule 2.1 hereto. The OraLabs Stock shall be issued with a restrictive legend as set forth in Section 4.2 of this Agreement.

(c) Any fractional shares that will result due to such distribution will be rounded up to the next highest whole number.

(d) As a result of the Stock Exchange, PSHL will become a wholly-owned subsidiary of OraLabs and the Shareholders and their designees will own ninety-four percent (94%) of the then fully diluted issued and outstanding common stock of OraLabs after giving effect to the OraLabs Redemption and the issuance of shares pursuant to the exercise of any options prior to the Closing Date.

2.2 Anti-Dilution. The number of shares of OraLabs Stock shall be appropriately adjusted to take into account any stock split, stock dividend, reverse stock split, recapitalization, or similar change in the OraLabs common stock which may occur between the date of the execution of this Agreement and the Closing, provided that the redemption shall not require any adjustment.

2.3. Time and Place of Closing. The Closing means the completion of the Stock Exchange. The Closing of the Stock Exchange will take place at 10:00 A.M. on the date (the "Closing Date") following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby as set forth in Articles IX and X (other than conditions with respect to actions the respective parties will take at the Closing itself). Immediately following the Closing, the following transactions will also be completed on the Closing Date: the OraLabs Redemption will occur, the directors of OraLabs will resign and the new directors listed in Section 6.4(a) below will begin serving as the directors of OraLabs. It is the intent of the Parties that the Closing shall be within forty-five days after the mailing date of the Schedule 14A Proxy Statement to the shareholders of OraLabs after it has been cleared by the SEC, unless extended in writing by the Parties. The Closing shall be held at the offices of Koff, Corn & Berger, P.C., 303 E. 17th Street, Suite 940, Denver, Colorado 80263, or at such other location or time as may be mutually agreed upon by the Parties. Notwithstanding the foregoing, if this Agreement does not close by October 15, 2006, either party may terminate this Agreement as set forth in Section 11.1(e) of this Agreement.

2.4 Closing Events. At the Closing, each of the respective Parties hereto shall execute, acknowledge, and deliver (or shall cause to be executed, acknowledged, and delivered) any and all stock certificates, officers' certificates, opinions, financial statements, schedules, agreements, resolutions, rulings, or other instruments required by this Agreement to be so delivered at or prior to the Closing, together with such other items as may be reasonably requested by the parties hereto and their respective legal counsel in order to effectuate or evidence the transactions contemplated hereby. If agreed to by the parties, the Closing may take place through the exchange of documents by fax, email and/or express courier.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF PSHL

As an inducement to enter into this Agreement and to consummate the transactions contemplated hereby, and to obtain the reliance of OraLabs, PSHL represents and warrants to OraLabs as follows:

3.1 Organization. PSHL is a British Virgin Islands international business company duly organized, validly existing and in good standing under the laws of the British Virgin Islands. Attached hereto as Schedule 3.1 are true, correct and complete copies of PSHL's Memorandum and Articles of Association, as amended and in effect on the date hereof. PSHL owns 100% of the equity of the PSHL Subsidiary. PSHL has the power and is duly authorized, qualified, franchised, and licensed under all applicable laws, regulations, ordinances, and orders of public authorities to own all of its properties and assets and to carry on its business in all material respects as it is now being conducted, including qualification to do business as a foreign corporation in jurisdictions in which the character and location of the assets owned by it or the nature of the business transacted by it requires qualification, except where the failure to so qualify would not have a Material Adverse Effect on PSHL.

3.2 Authorization; Enforceability. The execution, delivery and performance of this Agreement by PSHL and all other agreements to be executed, delivered and performed by PSHL pursuant to this Agreement (collectively, the "PSHL Exchange Documents") and the consummation by PSHL of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of PSHL. This Agreement and the PSHL Exchange Documents have been duly executed and delivered by PSHL and constitute the legal, valid and binding obligation of PSHL, enforceable in accordance with their respective terms, except to the extent that their enforcement is limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally and by general principles of equity.

3.3 No Violation or Conflict. The execution and delivery of this Agreement (i) does not, and the consummation of the transactions contemplated by this Agreement in accordance with the terms hereof will not, violate any provision of PSHL's Memorandum and Articles of Association and (ii) will not result in the breach of any term or provision of, or constitute an event of default under, any material indenture, mortgage, deed of trust, or other material contract, agreement, or instrument to which PSHL and the PSHL Subsidiary, are parties or to which any of their properties or operations are subject, other than instruments or agreements as to which consent shall have been obtained at or prior to the Closing.

3.4 Capitalization. The authorized capitalization of PSHL consists solely of 50,000 shares of ordinary stock, par value $1.00, of which 50,000 ordinary shares are issued and outstanding. All issued and outstanding shares of PSHL are owned by the Shareholders and are legally issued, fully paid, and non-assessable and were not issued in violation of the pre-emptive or other rights of any person.

3.5 Options or Warrants. There are no existing options, warrants, calls, or commitments of any character relating to the issuance of PSHL Stock.

3.6 Consents of Governmental Authorities and Others. To the Knowledge of PSHL, other than in connection with the provisions of the British Virgin Islands International Business Companies Act, the Exchange Act, and the Securities Act, no consent, approval, order or authorization of, or registration, declaration, qualification or filing with any federal, state or local governmental or regulatory authority, or any other Person, is required to be made by PSHL in connection with the execution, delivery or performance of this Agreement by PSHL or the consummation by PSHL of the transactions contemplated hereby, excluding the execution, delivery and performance of this Agreement by OraLabs.

3.7 Taxes.

(a) PSHL and the PSHL Subsidiary have filed, as appropriate, all national, province, and local income tax returns (collectively the "PSHL Tax Returns") required to be filed from inception to the date hereof and all taxes have been paid when due. None of the PSHL Tax Returns have been audited by any government or taxing authority in the British Virgin Islands, the Peoples' Republic of China or by any other regulatory authority. Each of the PSHL Tax Returns reflect the taxes due for the period covered thereby, except for amounts which in the aggregate are immaterial.

(b) PSHL and the PSHL Subsidiary do not owe any unpaid

national, province, county, local, or other taxes (including any deficiencies, interest, or penalties), except for taxes accrued but not yet due and payable, for which PSHL and the PSHL Subsidiary may be liable in their own right or as a transferee of the assets of, or as a successor to, any other corporation or entity. Furthermore, except as accruing in the Ordinary Course of Business, PSHL and the PSHL Subsidiary do not owe any past due accrued and unpaid taxes.

(c) PSHL and the PSHL Subsidiary acknowledge and agree that they are relying solely upon their own analysis of the tax consequences to them and to OraLabs upon completion of the transactions contemplated by this Agreement and are not relying upon OraLabs or any of its officers, directors, attorneys or agents with respect thereto.

3.8 No Material Contingent Liabilities. Except as set forth on Schedule 3.8, PSHL and the PSHL Subsidiary have no material contingent liabilities, direct or indirect, matured or unmatured, contingent or otherwise. PSHL and the PSHL Subsidiary have no Knowledge of any circumstances, events or arrangements which have occurred that may hereafter give rise to any material contingent liabilities of PSHL or the PSHL Subsidiary.

3.9 Information. The information concerning PSHL and the PSHL Subsidiary set forth in this Agreement and in the PSHL schedules and exhibits attached hereto and incorporated herein by this reference are complete and accurate in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact required to make the statements made, in light of the circumstances under which they were made, not misleading. All English translations and English summaries of documents provided by PSHL under this Agreement that were originally in a language other than English are accurate summaries or translations of the original documents.

3.10 Absence of Certain Changes or Events. Except as set forth in this Agreement or Schedule 3.10, since December 31, 2005,

(a) there has not been

(i) any change that would have a Material Adverse Effect in the business, operations, properties, assets, or financial condition of PSHL and the PSHL Subsidiary; or

(ii) any damage, destruction, or loss to PSHL and the PSHL Subsidiary (whether or not covered by insurance) that would have a Material Adversely Effect on the business, operations, properties, assets, or financial condition of PSHL and the PSHL Subsidiary;

(iii) any waiver of rights of value which in the aggregate are material considering the business of PSHL and the PSHL Subsidiary;

(b) PSHL and the PSHL Subsidiary have not

(i) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) not otherwise in the Ordinary Course of Business, and except for capital raised by issuance of debt or equity in a private placement or other capital raising transaction deemed advisable by PSHL;

(ii) paid any material obligation or liability not

otherwise in the Ordinary Course of Business (absolute or contingent) other than current liabilities reflected in or shown on PSHL's consolidated balance sheet dated December 31, 2005, and current liabilities incurred since that date in the Ordinary Course of Business and professional and other fees and expenses incurred in connection with the preparation of this Agreement and the consummation of the transactions contemplated hereby;

(iii) sold or transferred, or agreed to sell or transfer, any of its assets, properties, or rights not otherwise in the Ordinary Course of Business (except assets, properties, or rights not used or useful in its business which, in the aggregate have a value of less than $250,000), or canceled, or agreed to cancel, any debts or claims (except debts or claims which in the aggregate are of a value of less than $250,000);

(iv) made or permitted any amendment or termination of any contract, agreement, or license to which they are a party not otherwise in the Ordinary Course of Business if such amendment or termination is material, considering the business of PSHL and the PSHL Subsidiary;

(v) issued, delivered, or agreed to issue or deliver any stock, bonds or other corporate securities including debentures (whether authorized and unissued or held as treasury stock); or

(vi) to their Knowledge, become subject to any law or regulation which materially and adversely affects, or in the future may adversely affect, the business, operations, properties, assets, or financial condition of PSHL and the PSHL Subsidiary.

3.11 Title and Related Matters.

(a) Except as set forth on Schedule 3.11(a), PSHL and the PSHL Subsidiary have a valid leasehold interest in their land use rights, inventory, interests in the land use rights and buildings thereon, and assets, real and personal, which will be reflected in the most recent PSHL condensed consolidated balance sheet dated December 31, 2005 (except properties, interests in properties, and assets sold or otherwise disposed of since such date in the Ordinary Course of Business), free and clear of all liens, pledges, charges, or encumbrances except:

(i) as such assets may be affected by laws of the British Virgin Islands and The People's Republic of China;

(ii) statutory liens or claims not yet delinquent;

(iii) such imperfections of title and easements as do not and will not materially detract from or interfere with the present or proposed use of the properties subject thereto or affected thereby or otherwise materially impair present business operations on such properties; and

(b) Except as set forth on Schedule 3.11(b), PSHL and the PSHL Subsidiary own, free and clear of any liens, claims, encumbrances, royalty interests, or other restrictions or limitations of any nature whatsoever, any and all properties it is currently constructing and all procedures, techniques, marketing plans, business plans, methods of management, or other information utilized in connection with PSHL and the PSHL Subsidiary; and no third party has any right to, and PSHL and

the PSHL Subsidiary have not received any written notice of infringement of or conflict with asserted rights of others with respect to any product, technology, data, trade secrets, know-how, proprietary techniques, trademarks, service marks, trade names, or copyrights which, singly or in the aggregate, if the subject of an unfavorable decision, ruling, or finding, would have a Material Adverse Effect on the business, operations, financial condition, income, or business prospects of PSHL and the PSHL Subsidiary.

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3.12 Litigation and Proceedings. Except as set forth on Schedule 3.12, there are no actions, suits, proceedings, or investigations pending or, to the knowledge of PSHL, threatened in writing by or against PSHL and the PSHL Subsidiary, or affecting PSHL and the PSHL Subsidiary, or their properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind.

3.13. Brokers. Except for compensation to Belmont Capital Group Limited, PSHL has not employed any broker or finder, nor has it nor will it incur directly or indirectly, any broker's, finder's, investment banking or similar fees, commissions or expenses in connection with the transactions contemplated by this Agreement or the PSHL Exchange Documents.

3.14 Contracts.

(a) Attached hereto as Schedule 3.14, are all material contracts, agreements, franchises, license agreements, or other commitments to which PSHL and the PSHL Subsidiary, are parties or by which they or any of their assets, products, technology, or properties are bound (the "PSHL Contracts");

(b) the PSHL Contracts are valid and enforceable by PSHL and the PSHL Subsidiary in all respects, except as limited by bankruptcy and insolvency laws and by other laws affecting the rights of creditors generally;

(c) to their Knowledge, neither PSHL nor the PSHL Subsidiary are in default in any material respect under the terms of any outstanding contract, agreement, lease, or other commitment which is material to the business, operations, properties, assets, or financial condition of PSHL and the PSHL Subsidiary; and

(d) to their Knowledge, neither PSHL nor the PSHL Subsidiary are obligated or under any liability to make any payments by way of royalties, fees or otherwise to any owner or licensor of, or other claimant to, any patent, trademark, trade name, copyright or other intangible asset with respect to the use thereof, in connection with the conduct of its business or otherwise.

3.15 Compliance With Laws and Regulations. To their Knowledge, PSHL and the PSHL Subsidiary: (i) have complied with all applicable statutes and regulations of any national, province, county, or other governmental entity or agency thereof, except to the extent that noncompliance would not have a Material Adverse Effect on the business, operations, properties, assets, or financial condition of PSHL and the PSHL Subsidiary, or except to the extent that noncompliance would not result in the incurrence of any material liability for PSHL or the PSHL Subsidiary, (ii) are not in any default on its part with respect to any judgment, order, writ, injunction, decree, award, rule, or regulation of any court, arbitrator, or governmental agency or instrumentality,

and management has no Knowledge of any circumstances which, after reasonable investigation, would result in the discovery of such a default, (iii) are not and will not be infringing on or otherwise acting adversely to the rights of any person under or in respect of any patent, trademark, service mark, trade name, copyright, license, franchise, permission or other intangible right, and (iv) have not received written notice of any conditions which may reasonably be expected to materially interfere with or adversely affect their compliance with any Environmental Laws.

3.16 Approval of Agreement. The board of directors of PSHL has authorized the execution and delivery of this Agreement by PSHL and has approved this Agreement and the transactions contemplated hereby.

3.17 Material Transactions or Affiliations. Set forth on Schedule 3.17, is a brief description or summary of every material contract, agreement, or arrangement between PSHL and the PSHL Subsidiary, and any predecessor and any person who was at the time of such contract, agreement, or arrangement an officer, director, or person owning of record, or known by PSHL to own beneficially, 10% or more of the issued and outstanding PSHL Stock and which is to be performed in whole or in part after the date hereof or which was entered into not more than three years prior to the date hereof. In all of such transactions, the amount paid or received, whether in cash, in services, or in

kind, is, had been during the full term thereof, and is required to be paid during the unexpired portion of the term thereof, no less favorable to PSHL and the PSHL Subsidiary, than terms available from otherwise unrelated parties in arm's length transactions. Except as set forth on Schedule 3.17, no officer, director, or 10% shareholder of PSHL has any material interest, direct or indirect, in any material transaction with PSHL or the PSHL Subsidiary. There are no written commitments by PSHL and the PSHL Subsidiary to lend any funds to, borrow any money from, or enter into any other material transaction with, any such affiliated person.

3.18 Listing of OraLabs Common Stock. PSHL acknowledges that the current listing of the OraLabs Common Stock on the NASDAQ Capital Market will cease upon the occurrence of the Closing unless PSHL chooses to submit a new listing application and such application is approved prior to Closing. PSHL agrees that it will be solely responsible for the filing of any such new listing application and that even if PSHL submits the new listing application as soon as possible after the date of this Agreement, there can be no assurance that approval by NASDAQ will occur prior to Closing. PSHL agrees that the continued listing of the OraLabs Common Stock on the NASDAQ Capital Market or on any other exchange is not a condition to PSHL's closing of the transactions contemplated by this Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS

As an inducement to, and to obtain reliance of OraLabs, each of the Shareholders represent and warrant to OraLabs as follows:

4.1 Ownership of PSHL Shares. The Shareholders, with respect to the PSHL Stock owned by them, are the legal and beneficial owners of the number and percentage of PSHL Stock set forth on Schedule 2.1 of this Agreement, free and clear of any claims, charges, equities, liens, security interests, and encumbrances whatsoever, and the Shareholders have full rights, powers, and authority to transfer, assign, convey, and shall deliver the PSHL Stock held by

such Shareholders to OraLabs at the Closing with good and marketable title to such stock free and clear of any claims, charges, equities, liens, security interests, and encumbrances whatsoever.

4.2 Restricted Stock. The Shareholders understand that the OraLabs Stock to be acquired pursuant to this Agreement has not been registered under the Securities Act with the SEC, and is being issued in reliance upon the exemption from the registration requirements thereof afforded by Regulation S and/or other exemptions under the Securities Act, or with any state securities commission or agency. The Shareholders agree and acknowledge that OraLabs will issue stop transfer instructions to its registrar and transfer agent prohibiting the transfer of the OraLabs Stock delivered under this Agreement. The Shareholders and their designees understand that the OraLabs Stock to be issued to them will have the following restrictive legend or similar legend affixed thereto:

> "These Shares have not been registered under the Securities Act of 1933 (the "Securities Act"), and have been issued pursuant to an exemption pursuant to Regulation S under the Securities Act. Until one year after the date of purchase, no amount of the Shares may be offered, sold, or transferred to any U.S. Person and no hedging transactions involving these securities may be conducted during this period. Offers, sales, or transfers in the U.S. or to a U.S. person (as defined in Regulation S promulgated under the Securities Act) or for the account and benefit of a U.S. person are not permitted, except as provided in said Regulation S, unless the Shares are registered under the Securities Act or an exemption from such registration under the Securities Act is applicable."

4.3 Citizenship and Residency. Each of the Shareholders are citizens and residents of The People's Republic of China, and are not United States Persons within the meaning of Rule 902(a) of Regulation S.

4.4 Restrictions on Transfer. The Shareholders agree that the OraLabs Stock acquired by the Shareholders and/or by them pursuant to this Agreement shall not be voluntarily sold, transferred or otherwise disposed of in the United States or to any U.S. Person except pursuant to the United States securities laws or by registration of the OraLabs Stock under the Securities Act and any applicable state securities laws.

4.5 Transfers. The Shareholders understand that any disposition of the OraLabs Stock in violation of this Agreement shall be null and void. No transfer of the OraLabs Stock shall be made by OraLabs' registrar and transfer agent upon OraLabs' transfer books or records unless there has been compliance with the terms of this Agreement, including the above provisions. The Shareholders agree to indemnify and hold OraLabs and OraLabs, Inc. harmless from and against liabilities, claims, damages and expenses (including reasonable attorneys fees) that may result from or arise out of any disposition thereof in violation of this Agreement.

4.6 Non-U.S. Transactions. In connection with the transactions that are the subject of this Agreement, the Shareholders acknowledge that offers respecting the sale of the OraLabs Shares directed by OraLabs were received outside of the United States and that the Shareholders have not and are not engaged in or directed any unsolicited offers to buy the OraLabs Stock into the United States or to any United States person.

4.7 Investment Intent. The Shareholders are acquiring the OraLabs Stock

only for their own account and not on behalf of any United States person, and no sale by the Shareholders has been pre-arranged with any prospective buyer in the United States.

4.8 Taxes. The Shareholders acknowledge and agree that they are relying solely upon their own analysis of the tax consequences to them upon completion of the transactions contemplated by this Agreement and are not relying upon OraLabs or any of its officers, directors, attorneys or agents with respect thereto.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF ORALABS

As an inducement to, and to obtain the reliance of PSHL and the Shareholders, OraLabs and the OraLabs Subsidiaries represent and warrant to PSHL and the Shareholders as follows:

5.1 Organization. OraLabs is a corporation duly organized, validly existing, and in good standing under the laws of the State of Colorado. Attached hereto as Schedule 5.1 are complete and correct copies of the Articles of Incorporation and all amendments thereto and the Bylaws of OraLabs, and all amendments thereto, as in effect on the date hereof. OraLabs owns 100% of the issued and outstanding shares of the OraLabs Subsidiaries. OraLabs has the corporate power and is duly authorized, qualified, franchised, and licensed under all applicable laws, regulations, ordinances, and orders of public authorities to own all of its properties and assets and to carry on its business in all material respects as it is now being conducted, and there is no jurisdiction in which it is not qualified in which the character and location of the assets owned by it or the nature of the business transacted by it requires qualification, except where the failure to so qualify would not have a Material Adverse Effect on OraLabs.

5.2 Authorization; Enforceability. The execution, delivery and performance of this Agreement by OraLabs and the OraLabs Exchange Documents to be executed, delivered and performed by OraLabs pursuant to this Agreement and the consummation by OraLabs of the transactions contemplated hereby and thereby, including but not limited to the OraLabs Redemption, have been duly authorized by all requisite corporate action on the part of OraLabs. This Agreement and the OraLabs Exchange Documents and the documents evidencing the OraLabs Redemption have been duly executed and delivered by OraLabs and constitute the legal, valid and binding obligation of OraLabs, enforceable in accordance with their respective terms, except to the extent that their enforcement is limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally and by general principles of equity.

5.3 No Violation or Conflict. The execution and delivery of this Agreement (i) does not, and the consummation of the transactions contemplated by this Agreement in accordance with the terms hereof will not, violate any provision of OraLabs' Articles of Incorporation or Bylaws and (ii) will not result in the breach of any term or provision of, or constitute an event of default under, any material indenture, mortgage, deed of trust, or other material contract, agreement, or instrument to which OraLabs or the OraLabs Subsidiaries are a party or to which any of their properties or operations are subject, other than instruments or agreements as to which consent shall have been obtained at or prior to the Closing.

5.4 Capitalization. OraLabs' authorized capitalization includes

25,000,000 shares of common stock, par value $0.001, of which 4,693,015 shares are issued and outstanding as of the date of this Agreement (plus shares that may be issued upon exercise of options described in Schedule 5.11 and the shares to be issued to non-employee directors prior to the Closing Date as described in Section 6.4 below). All presently issued and outstanding shares are legally issued, fully paid, and non-assessable and not issued in violation of the pre-emptive or other rights of any person. OraLabs authorized capitalization includes 1,000,000 shares of preferred stock, $.001 par value, of which no preferred shares are issued and outstanding.

5.5 Subsidiaries. Except OraLabs, Inc. and O.H. Sub Corp., OraLabs does not have any subsidiaries and does not own, beneficially or of record, any shares of any other corporation.

5.6 Consents of Governmental Authorities and Others. To the Knowledge of OraLabs, other than in connection with the provisions of the provisions of the Colorado Business Corporation Act, the Exchange Act, and the Securities Act, no consent, approval, order or authorization of, or registration, declaration, qualification or filing with any federal, state or local governmental or regulatory authority, or any other Person, is required to be made by OraLabs or the OraLabs Subsidiaries in connection with the execution, delivery or performance of this Agreement by OraLabs or the consummation by OraLabs of the transactions contemplated hereby, excluding the execution, delivery and performance of this Agreement by PSHL.

5.7 Financial Statements. Attached hereto as Schedule 5.7 are the OraLabs' Financial Statements. The OraLabs' Financial Statements (a) have been prepared in accordance with the books of account and records of OraLabs; (b) fairly present, and are true, correct and complete statements in all material respects of OraLabs' financial condition and the results of its operations at the dates and for the periods specified in those statements; and (c) have been prepared in accordance with GAAP consistently applied with prior periods. OraLabs did not have as of the date of any such OraLabs' balance sheet, except as and to the extent reflected or reserved against therein, any liabilities or obligations (absolute or contingent) which should be reflected in a balance sheet or the notes thereto prepared in accordance with GAAP, and all assets reflected therein are properly reported and present fairly the value of the assets of OraLabs, in accordance with GAAP. The statements of operations, stockholders' equity, and cash flow reflect fairly the information required to be set forth therein by GAAP.

5.8 Taxes.

(a) OraLabs and the OraLabs Subsidiaries have filed all federal, state, or local income tax returns (the "OraLabs Tax Returns") required to be filed them from inception to the date hereof and all taxes have been paid when due. None of the OraLabs Tax Returns have been examined by the Internal Revenue Service or any state regulatory authority. Each of the OraLabs' Tax Returns reflect the taxes due for the period covered thereby, except for amounts which, in the aggregate, are immaterial.

(b) OraLabs and the OraLabs Subsidiaries have no liabilities with respect to the payment of any federal, state, county, local, or other taxes (including any deficiencies, interest, or penalties), except for taxes accrued but not yet due and payable. Furthermore, except as accruing in the Ordinary Course of Business, OraLabs and the OraLabs Subsidiaries do not owe any past due accrued and unpaid taxes.

(c) OraLabs and the OraLabs Subsidiaries acknowledge and agree that they are relying solely upon their own analysis of the tax consequences to them upon completion of the transactions contemplated

by this Agreement and are not relying upon the Shareholders, PSHL or any of its officers, directors, attorneys or agents with respect thereto.

5.9 No Material Contingent Liabilities. Except as set forth in Schedule 5.9, OraLabs and the OraLabs Subsidiaries have no material contingent liabilities, direct or indirect, matured or unmatured, contingent or otherwise. OraLabs and the OraLabs Subsidiaries have no Knowledge of any circumstances, conditions, events or arrangements which have occurred that may hereafter give rise to any material contingent liabilities of OraLabs resulting from or relating to the OraLabs Subsidiaries. Notwithstanding the previous sentence, OraLabs is not liable for any liability, obligation, or claim of the OraLabs Subsidiaries or that may be made against the OraLabs Subsidiaries under any guaranty, indemnity or otherwise, whether direct or indirect, matured or unmatured, contingent or otherwise.

5.10 Information. The information concerning OraLabs and the OraLabs Subsidiaries set forth in this Agreement and the OraLabs schedules and exhibits attached hereto and any other documents incorporated herein by reference are and will be complete and accurate in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact required to make the statements made, in light of the circumstances under which they were made, not misleading.

5.11 Options or Warrants. Except as set forth in Schedule 5.11, there are no outstanding (a) securities or instruments convertible into or exercisable for any of the capital stock or other equity interests of OraLabs or the OraLabs Subsidiaries; (b) options, warrants, subscriptions, puts, calls, or other rights to acquire capital stock or other equity interests of OraLabs or the OraLabs Subsidiaries; or (c) commitments, agreements or understandings of any kind, including employee benefit arrangements, relating to the issuance or repurchase by OraLabs or the OraLabs Subsidiaries of any capital stock or other equity interests of OraLabs or the OraLabs Subsidiaries, or any instruments convertible or exercisable for any such securities or any options, warrants or rights to acquire such securities. All outstanding stock options and warrants, and any other convertible securities, if any, not exercised prior to the Closing Date, will be terminated and cancelled as of the Closing Date.

5.12 Absence of Certain Changes or Events. Except as set forth in Schedule 5.12, since December 31, 2005:

(a) there has not been (i) any change in the business, operations, properties, assets, or financial condition of OraLabs and the OraLabs Subsidiaries (whether or not covered by insurance) which would a Material Adverse Effect upon the business, operations, properties, assets, or financial condition of OraLabs and the OraLabs Subsidiaries;

(b) OraLabs and the OraLabs Subsidiaries have not (i) amended their respective Certificate of Incorporation or Bylaws; (ii) declared or made, or agreed to declare or make any payment of dividends or distributions of any assets of any kind whatsoever to stockholders or purchased or redeemed, or agreed to purchase or redeem, any of its capital stock; (iii) waived any rights of value which in the aggregate are material considering the business of OraLabs(iv) made any material change in its method of management, operation, or accounting; or (v) entered into any other material transactions.

(c) OraLabs and the OraLabs Subsidiaries have not:

(i) granted or agreed to grant any options, warrants, or other rights for its stocks, bonds, or other corporate securities calling for the issuance thereof;

(ii) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) except liabilities incurred in the Ordinary Course of Business;

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(iii) paid or agreed to pay any material obligation or liability (absolute or contingent) other than current liabilities reflected in or shown on the most recent OraLabs' balance sheet and current liabilities incurred since that date in the Ordinary Course of Business and professional and other fees and expenses incurred in connection with the preparation of this Agreement and the consummation of the transactions contemplated hereby; or

(iv) issued, delivered, or agreed to issue or deliver any stock, bonds, or other corporate securities including debentures (whether authorized and unissued or held as treasury stock), except in connection with this Agreement; and

(d) to their Knowledge, OraLabs and the OraLabs Subsidiaries have not become subject to any law or regulation which materially and adversely affects, or in the future may adversely affect, the business, operations, properties, assets, or financial condition of OraLabs or the OraLabs Subsidiaries.

5.13 Title and Related Matters. Except as set forth on Schedule 5.13, OraLabs and the OraLabs Subsidiaries have good and marketable title to all of its properties, interest in properties, and assets, real and personal, which are reflected in the OraLabs' balance sheet dated September 30, 2005 (except properties, interest in properties, and assets sold or otherwise disposed of since such date in the Ordinary Course of Business), free and clear of all liens, pledges, charges, or encumbrances except

(a) statutory liens or claims not yet delinquent;

(b) such imperfections of title and easements as do not and will not materially detract from or interfere with the present or proposed use of the properties subject thereto or affected thereby or otherwise materially impair present business operations on such properties.

5.14 Real Property. OraLabs does not own any fee simple interest in real property and does not lease, sublease, or have any other contractual interest in any real property.

5.15 Benefit Plans and Agreements. Except as set forth on Schedule 5.15, OraLabs and the OraLabs Subsidiaries are not a party to any benefit plan or employment agreement under which OraLabs and the OraLabs Subsidiaries

currently has an obligation to provide benefits to any current or former employee, officer, director, consultant or advisor of OraLabs and the OraLabs Subsidiaries.

5.16 Environmental Matters. No real property used by OraLabs and the OraLabs Subsidiaries presently or in the past has been used to manufacture, treat, store, or dispose of any hazardous substance except in accordance with applicable law and such property is free of all such substances such that the condition of the property is in compliance with applicable Environmental Laws. To the Knowledge of OraLabs, OraLabs and the OraLabs Subsidiaries are in compliance with all Environmental Laws applicable to OraLabs, the OraLabs Subsidiaries or their businesses as a result of any hazardous substance utilized by OraLabs and the OraLabs Subsidiaries in their businesses or otherwise placed at any of the facilities owned, leased or operated by OraLabs and the OraLabs Subsidiaries, or in which OraLabs and the OraLabs Subsidiaries have a contractual interest. OraLabs and the OraLabs Subsidiaries have not received any written complaint, notice, order, or citation of any actual, threatened or alleged noncompliance by OraLabs and the OraLabs Subsidiaries with any Environmental Laws, and to the Knowledge of OraLabs, there is no Litigation pending or threatened against OraLabs and the OraLabs Subsidiaries with respect to any violation or alleged violation of the Environmental Laws, and to OraLabs' Knowledge, there is no reasonable basis for the institution of any such Litigation.

5.17 Litigation and Proceedings. Except as set forth on schedule 5.17, to the Knowledge of OraLabs there are no actions, suits, proceedings or investigations pending or threatened in writing by or against or affecting OraLabs and the OraLabs Subsidiaries, or affecting OraLabs and the OraLabs Subsidiaries, or their properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind.

5.18 Contracts.

(a) Attached hereto as Schedule 5.18 are copies of all material contracts, agreements, franchises, license agreements, or other commitments to which OraLabs and the OraLabs Subsidiaries, are parties or by which they or any of their assets, products, technology, or properties are bound (the "OraLabs Contracts");

(b) the OraLabs Contracts are valid and enforceable by OraLabs and the OraLabs Subsidiaries in all respects, except as limited by bankruptcy and insolvency laws and by other laws affecting the rights of creditors generally.

(c) to their Knowledge, neither OraLabs nor the OraLabs Subsidiaries are in default in any material respect under the terms of any outstanding contract, agreement, lease, or other commitment which is material to the business, operations, properties, assets, or financial condition of OraLabs and the OraLabs Subsidiaries.

(d) to their Knowledge, neither OraLabs nor the OraLabs Subsidiaries are obligated or under any liability to make any payments by way of royalties, fees or otherwise to any owner or licensor of, or other claimant to, any patent, trademark, trade name, copyright or other intangible asset with respect to the use thereof, in connection with the conduct of its business or otherwise.

5.19 Brokers. OraLabs has not employed any broker or finder, nor has it nor will it incur directly or indirectly, any broker's, finder's, investment banking or similar fees, commissions or expenses in connection with the transactions contemplated by this Agreement or the OraLabs Exchange Documents.

5.20 SEC Reports. All of the SEC Reports and other filings required to be filed by OraLabs have been filed with the SEC for the periods indicated in the definition of SEC Reports, and as of the date filed, each of the SEC Reports were true, accurate and complete in all material respects and did not omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

5.21 Governmental Authorizations.

(a) To their Knowledge, OraLabs and the OraLabs Subsidiaries have all licenses, franchises, permits, and other government authorizations, that are legally required to enable it to conduct its business operations in all material respects as conducted on the date hereof. Except for compliance with federal and state securities or corporation laws, as hereinafter provided, no authorization, approval, consent, or order of, or registration, declaration, or filing with, any court or other governmental body is required in connection with the execution and delivery by OraLabs of this Agreement and the consummation by OraLabs of the transactions contemplated hereby.

(b) To their Knowledge, OraLabs and the OraLabs Subsidiaries have complied with all applicable statutes and regulations of any federal, state, or other applicable governmental entity or agency thereof, except to the extent that noncompliance would not materially and adversely affect the business, operations, properties, assets, or financial condition of OraLabs and the OraLabs Subsidiaries or except to the extent that noncompliance would not result in the incurrence of any material liability. This compliance includes, but is not limited to, the filing of all reports to date with the SEC and state securities authorities.

5.22 Approval of Agreement. The board of directors of OraLabs has authorized the execution and delivery of this Agreement by OraLabs and has approved this Agreement and the transactions contemplated hereby.

5.23 Material Transactions of Affiliations. Except as set forth in the SEC Reports, there exists no material contract, agreement, or arrangement between OraLabs, the OraLabs Subsidiaries and any Person who was at the time of such contract, agreement, or arrangement an officer, director, or person owning of record or known by OraLabs to own beneficially, 10% or more of the issued and outstanding common stock of OraLabs and which is to be performed in whole or in part after the date hereof or was entered into not more than three years prior to the date hereof, neither any officer, director, nor 10% shareholder of OraLabs has, or has had during the last preceding full fiscal year, any known interest in any material transaction with OraLabs or the OraLabs Subsidiaries which was material to the business of OraLabs or the OraLabs Subsidiaries; and OraLabs has no commitment, whether written or oral, to lend any funds to, borrow any money from, or enter into any other material transaction with any such affiliated person.

5.24 Listing on NASDAQ Capital Market. OraLabs is listed on the NASDAQ Capital Market and except as set forth on Schedule 5.24, is in compliance with the listing standards, rule and regulations of the NASDAQ Capital Market.

ARTICLE VI
PRE-CLOSING COVENANTS

6.1 Access to Properties and Records. OraLabs and PSHL will each afford to the officers and authorized representatives of the other full access to the properties, books, and records of OraLabs, the OraLabs Subsidiaries, PSHL or the PSHL Subsidiary, as the case may be, in order that each may have full opportunity to make such reasonable investigation as it shall desire to make of the affairs of the other, and each will furnish the other with such additional financial and operating data and other information as to the business and properties of OraLabs, the OraLabs Subsidiaries, PSHL or the PSHL Subsidiary, as the case may be, as the other shall from time to time reasonably request.

6.2 Stand-Still Agreement. From and after the date of this Agreement and up to and including the Closing of this Agreement, the parties agree not to directly or through intermediaries solicit, entertain or otherwise discuss with any Person any other similar transaction, except that the OraLabs Board of Directors may respond to unsolicited offers from third parties to the extent necessary to comply with its fiduciary duties upon advice of OraLabs' legal counsel.

6.3 Third Party Consents and Certificates. OraLabs and PSHL agree to cooperate with each other in order to obtain any required third party consents to this Agreement and the transactions herein and therein contemplated.

6.4 Submission to OraLabs Shareholders. As soon as practicable following the execution of this Agreement, and the clearance by the SEC of the Proxy Statement submitted by OraLabs to the SEC, OraLabs shall cause to have approved the following proposals at a meeting of the shareholders of OraLabs, at which a quorum, as set forth in OraLabs' Bylaws are present and the holders of a majority of the outstanding shares of common stock of OraLabs approve such proposals. The proposals are set forth below.

(a) the election of Wo Hing Li, Leada Tak Tai Li and Shu Keung Leung as directors of OraLabs effective on the Closing Date upon completion of all of the transactions contemplated by this Agreement;

(b) the amendment to the Certificate of Incorporation of OraLabs to change its name to "Ameriasia Steel, Inc." or such other name to be determined by PSHL (the "New Name"), and to increase the authorized number of shares of OraLabs from 25,000,000 to 200,000,000 shares;

(c) the approval of this Agreement and the transactions contemplated herein, and the OraLabs Redemption Agreement, and the transactions contemplated therein;

(d) the approval of OraLabs' 2006 Director Stock Plan and issuance of 300,000 shares thereunder to OraLabs non-employee directors, Michael I. Friess and Robert C. Gust prior to the Closing; and

(e) to take such other actions as the shareholders of OraLabs may determine are necessary or appropriate.

6.5 Trading. PSHL and the Shareholders agree that until the earlier to occur of (i) the date that is three months after the termination of this

Agreement, or (ii) the date of the Closing of this Agreement, they will not, without the prior written consent of OraLabs:

(a) acquire, offer to acquire, or agree to acquire, directly or indirectly, by purchase or otherwise, any voting securities or direct or indirect rights to acquire any voting securities of OraLabs or the OraLabs Subsidiaries thereof, or of any successor to or person in control of OraLabs, or any assets of OraLabs, the OraLabs Subsidiaries or any division thereof or of any such successor or controlling person;

(b) make or in any way participate, directly or indirectly, in any "solicitation" or "proxies" to vote (as such terms are used in the rules of the SEC), or seek to advise or influence any person or entity with respect to the voting of any voting securities of OraLabs;

(c) make any public announcement with respect to, or submit a proposal for, or offer of (with or without conditions) any extraordinary transaction involving OraLabs or its securities or assets;

(d) form, join or in any way participate in a "group" as defined in Section 13(d)(3) of the Exchange Act, in connection with any of the foregoing; or

(e) otherwise act, alone or in concert with others, to seek to control the management, board of directors, or policies of OraLabs.

6.6 Actions Prior to Closing.

(a) From and after the date of this Agreement until the Closing Date and except as permitted or contemplated by this Agreement, OraLabs, the OraLabs Subsidiaries, PSHL and the PSHL Subsidiary, will each:

(i) carry on its business in substantially the same manner as it has heretofore;

(ii) maintain and keep its properties in states of good repair and condition as at present, except for depreciation due to ordinary wear and tear and damage due to casualty;

(iii) maintain in full force and effect insurance comparable in amount and in scope of coverage to that now maintained by it;

(iv) perform in all material respects all of its obligation under material contracts, leases, and instruments relating to or affecting its assets, properties, and business;

(v) use its reasonable best efforts to maintain and preserve its business organization intact, to retain its key employees, and to maintain its relationship with its material suppliers and customers; and

(vi) fully comply with and perform in all material respects all obligations and duties imposed on it by all federal and state laws and all rules, regulations, and orders imposed by federal or state governmental authorities.

(b) From and after the date of this Agreement until the Closing Date, neither OraLabs nor PSHL and the PSHL Subsidiary will:

(i) make any change in their respective Articles of Incorporation or Bylaws or its Memorandum and Articles of Association ;

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(ii) take any action described in section 3.10 in the case of PSHL and the PSHL Subsidiary, or in section 5.12, in the case of OraLabs or the OraLabs Subsidiaries (all except as permitted therein or as disclosed in the applicable party's schedules); or

(iii) enter into or amend any material contract, agreement, or other instrument of any of the types described in such party's schedules, except that a party may enter into or amend any contract, agreement, or other instrument in the Ordinary Course of Business involving the sale of goods or services.

6.7 PSHL Financial Statements. PSHL acknowledges that timely receipt of its PSHL Financial Statements for the annual period ended June 30, 2005 and the half year ended December 31, 2005 will be necessary in order for OraLabs to seek a timely fairness opinion and in order for OraLabs to make a timely filing of its Proxy Statement or Information Statement with the SEC. Accordingly, PSHL agrees that the statements for the year June 30, 2005, and the half year ended December 31, 2005 will be delivered to OraLabs by April 15, 2006. In addition, PSHL will provide to OraLabs such unaudited financial information and pro forma financial information as may be necessary for OraLabs to file any Form 8-K current report and the Proxy Statement or Information Statement in accordance with the requirements of the SEC. PSHL acknowledges that its financial statements for the quarter ended March 31, 2006 will be required in order to complete the process by which the Proxy Statement is reviewed by the SEC.

6.8 Voting Agreement. Within 5 days of the date of this Agreement, PSHL shall have received a voting agreement from Gary H. Schlatter and the Schlatter Family Partnership, substantially in the form attached hereto as Schedule 6.8 pursuant to which Gary H. Schlatter and the Schlatter Family Partnership agree to vote in favor of the proposals set forth in the Proxy Statement to be furnished to the shareholders of OraLabs pursuant to Section 6.4 above. Further, Gary H. Schlatter and the Schlatter Family Partnership agree that they will not dissent from the transaction contemplated in this Agreement.

6.9 Cashiers Check to be delivered at Closing. PSHL shall have received a cashier's check from OraLabs in the amount of $30,000. The $30,000 is being paid to PSHL by OraLabs to defer certain costs of the transaction to be incurred by PSHL.

ARTICLE VII
POST-CLOSING COVENANTS

7.1 Sales Under Rules 144 or 145, If Applicable.

(a) OraLabs will use its reasonable best efforts at all times to comply with the reporting requirements of the Exchange Act, and the rules and regulations promulgated thereunder.

(b) Upon being informed in writing by any person holding restricted stock of OraLabs as of the date of this Agreement that such person intends to sell any shares under Rule 144 or Rule 145 promulgated under the Securities Act (including any rule adopted in substitution or replacement thereof), OraLabs will certify in writing to such person that it has filed all of the reports required to be filed by it under the Exchange Act to enable such person to sell such person's restricted stock under Rule 144 or 145, as may be applicable in the circumstances, or will inform such person in writing that it has not filed any such report or reports.

(c) If any certificate representing any such restricted stock is presented to OraLabs' transfer agent for registration of transfer in connection with any sale theretofore made under Rule 144 or 145, provided such certificate is duly endorsed for transfer by the appropriate person(s) or accompanied by a separate stock power duly executed by the appropriate person(s) in each case with reasonable assurances that such endorsements are genuine and effective, and is accompanied by an opinion of counsel satisfactory to OraLabs and its counsel that such transfer has complied with the requirements of Rule 144 or 145, as the case may be, OraLabs will promptly instruct its transfer agent to register such transfer and to issue one or more new certificates representing such shares to the transferee and, if appropriate under the provisions of Rule 144 or 145, as the case may be, free of any stop transfer order or restrictive legend.

7.2 Delivery of Additional Instruments on Request. Each party agrees to execute and deliver or cause to be executed and delivered at the Closing and at such other times and places as shall be reasonably agreed, such additional instruments as it may reasonably request for the purpose of fully effecting the transactions contemplated by this Agreement.

7.3 Continued Operations. After Closing, OraLabs will continue to actively conduct the business of PSHL as it had been conducted prior to Closing.

7.4 Dissenters. As used in this paragraph, OraLabs, Inc. will be referred to as the Subsidiary. If the holders of any shares exercise dissenters rights, then after the Closing Date OraLabs will permit the Subsidiary and its representatives to actively participate in the process of determining the amount payable to dissenters as determined under applicable Colorado law. On the first business day following payment by OraLabs of amounts due to dissenters, the Subsidiary will pay such amount to OraLabs in consideration for the issuance by OraLabs to the Subsidiary of the number of shares of OraLabs common stock calculated under the following sentence. The purchase price per share issued to the Subsidiary will equal the average of the closing bid and ask price of the common stock of OraLabs as of the close of trading on the business day preceding the date that payment is made by the Subsidiary to OraLabs. The parties agree that the shares of OraLabs issuable to the Subsidiary will be restricted securities. OraLabs and the Subsidiary agree that in the event that 37,500 shares or more are issued to the Subsidiary in consideration for the payment to dissenters by Subsidiary in accordance with this Section 7.4, the Subsidiary shall be granted a one time demand registration right pursuant to which OraLabs will, upon written request by the Subsidiary use its commercially reasonable best efforts to have a registration statement filed with and declared effective by the SEC to register the sale of the shares issued to the Subsidiary pursuant to this Section 7.4. In the event that Subsidiary provides notice that it intends to exercise such demand right and later withdraws such demand registration request, Subsidiary shall lose such demand registration right.

Subsidiary shall advance payment of all reasonable expenses estimated to be incurred by OraLabs in its sole discretion in connection with the preparation of and filing of the registration statement, including, but not limited to all legal fees, accounting fees, filing fees, edgarization fees, applicable blue sky fees and other out of pocket costs incurred by OraLabs. Applicable Blue Sky laws will be complied with so as to permit sales and resales of those shares that are registered under the Registration Statement within the State of Colorado and any other states chosen by the Subsidiary. OraLabs shall be under no obligation to file or maintain an effective registration statement that includes shares issued to the Subsidiary pursuant to this Section 7.4, if such shares may then be sold pursuant to Rule 144 or any similar provision then in effect under the Securities Act in the opinion of counsel to Subsidiary.

7.5 Confidentiality. OraLabs on the one hand, and PSHL and the Shareholders on the other hand, agree that for a period of five (5) years from and after the date of this Agreement (regardless of whether the transactions contemplated hereby are consummated), each will hold, and will cause its directors, officers, employees, Affiliates, consultants and advisers (collectively, "Representatives") to hold, in confidence all documents and information furnished to it (the "Receiving Party") by or on behalf of the other party (the "Disclosing Party") either before or after such date, in connection with the transactions contemplated by this Agreement (the "Confidential Material"). Each party agrees that it will use the Confidential Material solely for the purpose of the transactions contemplated by this Agreement (including without limitation descriptions or attachments of Confidential Material in any press releases and public filings that OraLabs determines are necessary or

advisable to comply with applicable securities laws or as required by law) and it will not use the Confidential Material in any way detrimental to the other party. In the event that either party is requested in any proceeding to disclose any Confidential Material, such party shall give the other party prompt notice of such request so that the other party may seek an appropriate protective order. If, in the absence of a protective order, a party is nonetheless compelled to disclose Confidential Material, such party may disclose such information without liability hereunder; provided, however, that such party will give the other party written notice of the information to be disclosed as far in advance of its disclosure as is practicable and, upon the request of and at the expense of such other party, such party will use commercially reasonable efforts to obtain assurances that confidential treatment will be accorded to such information. The term "Confidential Material" shall not include information that was or becomes generally available on a non-confidential basis provided that the source of such information was not bound by a confidentiality agreement. Without granting any right or license, the Disclosing Party agrees that the foregoing shall not apply to any information that the Receiving Party can document: (i) is (through no improper action or inaction by the Receiving Party or any affiliate, agent, consultant or employee) generally available to the public, or (ii) was in its possession or known by it prior to receipt from the Disclosing Party, or (iii) was rightfully disclosed to it by a third party without restriction, provided the Receiving Party complies with any restrictions imposed by the third party, or (iv) was independently developed without use of any Confidential Material of the Disclosing Party by employees of the Receiving Party who have had no access to such information. The parties agree that because money damages may not be a sufficient remedy for any breach of the foregoing covenants and agreements, the Disclosing Party shall be entitled to specific performance and injunctive and other equitable relief as a remedy for any such breach of this Agreement in addition to all monetary remedies available at law or in equity.

ARTICLE VIII

INDEMNIFICATION

8.1 Survival of the Representations and Warranties. No claims may be asserted under the representations, warranties and covenants set forth in this Agreement after the expiration of twelve (12) months from the Closing Date, except that claims may be asserted under the provisions of Sections 3.7, 5.8, and 5.16 until the expiration of their applicable statute of limitations. The provisions of Section 7.5 will survive for five years from the date of this Agreement. No claim with respect to breaches of covenants, representations or warranties, including without limitation claims for indemnification, may be brought by any party hereto, other than a claim for fraud, after expiration of the applicable periods set forth in the first sentence of this Section 8.1.

8.2 Investigation. The representations, warranties, covenants and agreements set forth in this Agreement shall not be affected or diminished in any way by any investigation (or failure to investigate) at any time by or on behalf of the party for whose benefit such representations, warranties, covenants and agreements were made. All statements contained herein or in any schedule, certificate, exhibit, list or other document required to be delivered pursuant hereto, shall be deemed to be representations and warranties for purposes of this Agreement; provided, that any knowledge or materiality qualifications contained herein shall be applicable to such other documents.

8.3 Indemnification.

(a) OraLabs Indemnification. PSHL and the Shareholders hereby agree to indemnify OraLabs and each of the officers, agents and directors of OraLabs as of the date of execution of this Agreement against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever) (collectively a "OraLabs Loss"), to which it or they may become subject arising out of (a) any breach or default in the performance by PSHL or the Shareholder of any covenant or agreement made by in this Agreement; (b) any breach of any representation or warranty made by PSHL and the Shareholders in this Agreement; and (c) any and all litigation incident to any of the foregoing. Subject to Section 8.1, the indemnification provided for in this paragraph shall survive the Closing and consummation of the transactions contemplated hereby and termination of this Agreement.

(b) PSHL and the Shareholders Indemnification. OraLabs hereby agrees to indemnify PSHL and each of the officers, agents and directors of PSHL as of the date of execution of this Agreement and the Shareholders against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever) (collectively a "PSHL Loss"), to which it or they may become subject arising out of (a) any breach or default in the performance by OraLabs or the OraLabs Subsidiaries of any covenant or agreement made by in this Agreement; (b) any breach of any representation or warranty made by OraLabs or the OraLabs Subsidiaries in this Agreement; and (c) any and all litigation incident to any of the foregoing. Subject to Section 8.1, the indemnification provided for in this paragraph shall survive the Closing and consummation of the transactions contemplated hereby and termination of this Agreement.

(c) OraLabs, Inc. agrees to enter into an indemnification agreement substantially in the form attached hereto as Exhibit A on the Closing Date.

(d) Indemnity Procedure. A party or parties hereto agreeing to be responsible for or to indemnify against any matter pursuant to this Agreement is referred to herein as the "Indemnifying Party" and the other party or parties claiming indemnity is referred to as the "Indemnified Party".

(i) An Indemnified Party under this Agreement shall, with respect to claims asserted against such party by any third party, give written notice to the Indemnifying Party of any liability which might give rise to a claim for indemnity under this Agreement within thirty (30) calendar days of the receipt of any written claim from any such third party, but not later than twenty (20) days prior to the date any answer or responsive pleading is due, and with respect to other matters for which the Indemnified Party may seek indemnification, give prompt written notice to the Indemnifying Party of any liability which might give rise to a claim for indemnity; provided, however, that any failure to give such notice will not waive any rights of the Indemnified Party except to the extent the rights of the Indemnifying Party are materially prejudiced.

(ii) The Indemnifying Party shall have the right, at its election, to take over the defense or settlement of such claim by giving written notice to the Indemnified Party at least fifteen (15) days prior to the time when an answer or other responsive pleading or notice with respect thereto is required. If the Indemnifying Party makes such election, it may conduct the defense of such claim through counsel of its choosing (subject to the Indemnified Party's approval of such counsel, which approval shall not be unreasonably withheld), shall be solely responsible for the expenses of such defense and shall be bound by the results of its defense or settlement of the claim. The Indemnifying Party shall not settle any such claim without prior notice to and consultation with the Indemnified Party, and no such settlement involving any equitable relief or which might have an adverse effect on the Indemnified Party may be agreed to without the written consent of the Indemnified Party (which consent shall not be unreasonably withheld). So long as the Indemnifying Party is diligently contesting any such claim in good faith, the Indemnified Party may pay or settle such claim only at its own expense and the Indemnifying Party will not be responsible for the fees of separate legal counsel to the Indemnified Party, unless the named parties to any proceeding include both parties and representation of both parties by the same counsel would be inappropriate. If the Indemnifying Party does not make such election, or having made such election does not, in the reasonable opinion of the Indemnified Party proceed diligently to defend such claim, then the Indemnified Party may (after written notice to the Indemnifying Party), at the

expense of the Indemnifying Party, elect to take over the defense of and proceed to handle such claim in its discretion and the Indemnifying Party shall be bound by any defense or settlement that the Indemnified Party may make in good faith with respect to such claim. In connection therewith, the Indemnifying Party will fully cooperate with the Indemnified Party should the Indemnified Party elect to take over the defense of any such claim.

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(iii) The Parties agree to cooperate in defending such third party claims and the Indemnified Party shall provide such cooperation and such access to its books, records and properties as the Indemnifying Party shall reasonably request with respect to any matter for which indemnification is sought hereunder; and the parties hereto agree to cooperate with each other in order to ensure the proper and adequate defense thereof.

(v) With regard to claims of third parties for which indemnification is payable hereunder, such indemnification shall be paid by the Indemnifying Party upon the earlier to occur of: (i) the entry of a judgment against the Indemnified Party and the expiration of any applicable appeal period, or if earlier, five (5) days prior to the date that the judgment creditor has the right to execute the judgment; (ii) the entry of an unappealable judgment or final appellate decision against the Indemnified Party; or (iii) a settlement of the claim. Notwithstanding the foregoing, provided that there is no dispute as to the applicability of indemnification, the reasonable expenses of counsel to the Indemnified Party shall be reimbursed on a current basis by the Indemnifying Party if such expenses are a liability of the Indemnifying Party.

(vi) With regard to other claims for which indemnification is payable hereunder, such indemnification shall be paid within thirty (30) calendar days by the Indemnifying Party upon demand by the Indemnified Party.

8.4 General. In case at any time after the Closing Date any further action is necessary to carry out the purposes of this Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Article VIII).

ARTICLE IX
CONDITIONS PRECEDENT TO OBLIGATIONS OF ORALABS

The obligations of OraLabs under this Agreement are subject to the satisfaction (or waiver by OraLabs of any one or more of the following conditions in the exercise of its sole discretion), at or before the Closing Date, of the following conditions, and if OraLabs shall not consummate the

transactions contemplated by this Agreement by reason of the failure of any of such conditions to be met, OraLabs will have no liability to PSHL or its Shareholders:

9.1 Accuracy of Representations. The representations and warranties made by PSHL and the Shareholders in this Agreement were true when made and shall be true as of the Closing Date with the same force and effect as if such representations and warranties were made at and as of that time (except for changes therein permitted by this Agreement), and PSHL and the Shareholders shall have performed or complied with all covenants and conditions required by this Agreement to be performed or complied with by PSHL and the Shareholders prior to or at the Closing.

9.2 Officer's Certificates. OraLabs shall have been delivered a certificate from PSHL and the Shareholders addressed to OraLabs, dated the Closing Date, certifying that the conditions specified in Section 9.1 above have been fulfilled.

9.3 No Material Adverse Change. Prior to the Closing Date, there shall not have occurred any change that would have Material Adverse Effect in the financial condition, business, or operations of PSHL and the PSHL Subsidiary, nor shall any event have occurred which, with the lapse of time or the giving of notice, may cause or create any Material Adverse Effect in the financial condition, business, or operations of PSHL and the PSHL Subsidiary.

9.4 Officer and Director Questionnaires. OraLabs shall have received officer and director questionnaires completed and signed by each executive officer and director of PSHL in form and substance reasonably satisfactory to OraLabs and its counsel which shall contain information for use by OraLabs in reporting the transaction contemplated hereby on Form 8-K and in Schedule 14A or 14C to be filed with the SEC.

9.5 PSHL Financial Statements. OraLabs shall have received the PSHL Financial Statements. The PSHL Financial Statements shall (a) have been prepared in accordance with the books of account and records of OraLabs; (b) fairly present, and are true, correct and complete statements in all material respects of OraLabs' financial condition and the results of its operations at the dates and for the periods specified in those statements; and (c) have been prepared in accordance with GAAP consistently applied with prior periods. OraLabs shall have received all other financial information and pro formas as required under the provisions of this Agreement.

9.6 Consents. All consents to the consummation of the transactions contemplated by this Agreement that are required in order to prevent a breach of or a default under the terms of any instrument to which PSHL or the Shareholders is a party or is bound shall have been obtained by PSHL.

9.7 Approval by OraLabs Shareholders. The transactions contemplated by this Agreement shall have been approved at a shareholder meeting of OraLabs as set forth in Section 6.4 of this Agreement and all applicable filings with the SEC shall have been made in connection with the approval by OraLabs Shareholders.

9.8 Due Diligence. OraLabs must be satisfied in its sole and absolute discretion with the results of its due diligence investigation of PSHL. Failure to notify PSHL within 45 days following OraLabs' receipt of the audited PSHL Financial Statements for the year ended June 30, 2005 and the unaudited financial statements for the half year ended December 31, 2005, that OraLabs is

not satisfied with the results of its due diligence investigation of PSHL, shall constitute a waiver of this paragraph.

9.9 Accountant's Letter. OraLabs shall have received a "comfort" letter from PSHL's independent auditors, Murrell, Hall, McIntosh & Company PLLP covering the period from the last day of PSHL's most recent fiscal year until a day that is no more than ten days prior to the date of Closing, in a form reasonably satisfactory to counsel for OraLabs.

9.10 Legal Opinion. OraLabs shall have received a legal opinion from an attorney authorized to practice in the British Virgin Islands, that (i) PSHL is a company duly organized, validly existing, and in good standing under the laws of the British Virgin Islands International Business Companies Act; (ii) the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement in accordance with the terms hereof will not, violate any provision of PSHL's organizational documents; (iii) PSHL has taken all action required by laws, its articles of organization, certificate of business registration, or otherwise to authorize the execution and delivery of this Agreement; and (iv) PSHL has full power, authority, and legal right and has taken all action required by law, and otherwise to consummate the transactions herein contemplated and the closing of the transactions will be legally binding upon PSHL.

9.11 Special Covenants Regarding the OraLabs Stock. OraLabs shall have received letters from each of the Shareholders, substantially in the form attached hereto as Exhibit B, that the issuance of the OraLabs Stock to the Shareholders as contemplated hereby, constitutes the offer and sale of securities under the Securities Act and any applicable state statutes and that it is the intent that such transactions shall be consummated in reliance on Regulation S and other exemptions from the registration requirements of such statutes.

9.12 Board Approval. OraLabs shall have received from PSHL certificates dated the Closing Date, of an officer of PSHL setting forth that authorizing resolutions were adopted by PSHL Board of Directors, approving the terms and conditions of this Agreement and the other documents contemplated hereby and the transactions contemplated hereby and thereby.

9.13 Certificates. The Shareholders shall have delivered the Certificates to OraLabs pursuant to Section 2.1 of this Agreement.

9.14 Number of Dissenters. The number of shares that shall be the subject of Dissenters' Rights exercised by any of the shareholders of OraLabs shall not cumulatively exceed 75,000.

9.15 Fairness Opinion. The Board of Directors of OraLabs shall have received a fairness opinion reasonably satisfactory to it that remains in effect as of the time of Closing.

Any of the above conditions can be waived by OraLabs in its sole and absolute discretion.

ARTICLE X
CONDITIONS PRECEDENT TO OBLIGATIONS OF PSHL AND THE SHAREHOLDERS

The obligations of PSHL and the Shareholders under this Agreement are subject to the satisfaction (or waiver by PSHL and the Shareholders of any one

or more of the following conditions in the exercise of their sole discretions), at or before the Closing Date, of the following conditions, and if PSHL and the Shareholders shall not consummate the transactions contemplated by this Agreement by reason of the failure of any of such conditions to be met, they will have no liability to OraLabs:

10.1 Accuracy of Representations. The representations and warranties made by OraLabs in this Agreement were true when made and shall be true immediately prior to commencement of the Closing (except for changes therein permitted by this Agreement) with the same force and effect as if such representations and warranties were made at and as of that time, and OraLabs shall have performed and complied with all covenants and conditions required by this Agreement to be performed or complied with by OraLabs and the OraLabs Subsidiaries prior to or at the Closing.

10.2 Officer's Certificates. PSHL shall have been delivered a certificate from OraLabs addressed to PSHL, dated the Closing Date, certifying that the conditions specified in Section 10.1 above have been fulfilled.

10.3 No Material Adverse Change. Prior to the Closing Date, there shall not have occurred any change that would have Material Adverse Effect in the financial condition, business, or operations of OraLabs, nor shall any event have occurred which, with the lapse of time or the giving of notice, may cause or create any Material Adverse Effect in the financial condition, business, or operations of OraLabs.

10.4 Delivery of Books and Records. At the Closing, OraLabs shall deliver to Schlueter & Associates P.C., legal counsel of PSHL, the originals of the corporate minute books, books of account, contracts, records, and all other books or documents of OraLabs now in the possession or control of OraLabs or its representatives and agents. Such minute books shall contain accurate records of all meetings and other corporate actions of the board of directors, committees of the board of directors, incorporators and shareholders of OraLabs from the date of their incorporation to the date hereof which were memorialized in writing.

10.5 Approval by OraLabs Shareholders. The transactions contemplated by this Agreement shall have been approved at a shareholder meeting or shareholder consent of OraLabs pursuant to Section 6.4 of this Agreement and all applicable filings with the SEC shall have been made in connection with the approval by OraLabs Shareholders.

10.6 Good Standing. OraLabs shall have received a certificate of good standing from OraLabs prepared by the Secretary of State of the State of Colorado or other appropriate office, dated as of a date within ten days prior to the Closing Date certifying that OraLabs is in good standing as a corporation in the State of Colorado.

10.7 Shareholders List. PSHL shall have received a shareholders' list from OraLabs prepared by its transfer agent, current at least within ten (10) days prior to Closing, containing the name, address and number of shares held by each such OraLabs shareholder, certified by a representative of the transfer agent as being true, complete and accurate.

10.8 Consents. All consents to the consummation of the transactions contemplated by this Agreement that are required in order to prevent a breach of or a default under the terms of any instrument to which OraLabs is a party or is bound shall have been obtained by OraLabs.

10.9 Due Diligence. PSHL must be satisfied in its sole and absolute discretion with the results of its due diligence investigation of OraLabs. Failure to notify OraLabs within 45 days following mutual execution of this Agreement, that PSHL is not satisfied with the results of its due diligence investigation of OraLabs, shall constitute a waiver of this paragraph.

10.10 Intentionally Omitted.

10.11 Legal Opinion. PSHL shall have received a legal opinion from an attorney authorized to practice in the state of Colorado, that (i) OraLabs is a company duly organized, validly existing, and in good standing under the Colorado Business Companies Act; (ii) the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement, including the Oralabs Redemption, in accordance with the terms hereof will not, violate any provision of OraLab's organizational documents; (iii) OraLabs has taken all action required by laws, its articles of organization, certificate of business registration, or otherwise to authorize the execution and delivery of this Agreement; and (iv) OraLabs has full power, authority, and legal right and has taken all action required by law, and otherwise to consummate the transactions herein contemplated and the closing of the transactions will be legally binding upon OraLabs, the OraLabs Subsidiaries and Gary H. Schlatter.

10.12 Board Approval. PSHL shall have received from OraLabs certificates dated the Closing Date, of an officer of OraLabs setting forth that authorizing resolutions were adopted by OraLabs' Board of Directors, approving the terms and conditions of this Agreement and the other documents contemplated hereby and the transactions contemplated hereby and thereby.

10.13 OraLabs Stock. The Shareholders shall have received the shares of OraLabs Stock pursuant to section 2.1 of this Agreement.

10.14 OraLabs Redemption. OraLabs shall have consummated the OraLabs Redemption and the redeemed shares of OraLabs shall have been cancelled on the stock transfer records of OraLabs or returned to the status of authorized by unissued.

10.15 Name Change. OraLabs shall have filed with the Secretary of State of Colorado a Certificate of Amendment to its Articles of Incorporation to change its name to Ameriasia Steel, Inc.

10.16 Fairness Opinion. The Board of Directors of OraLabs shall have delivered to PSHL a fairness opinion that provides that the transactions contemplated by this Agreement are fair to the shareholders of OraLabs from a financial standpoint, that is reasonably satisfactory to PSHL and that remains in effect as of the time of Closing.

10.17 Number of Dissenters. The number of shares that shall be the subject of Dissenters' Rights exercised by any of the shareholders of OraLabs shall not cumulatively exceed 75,000, unless OraLabs, Inc. agrees that it will purchase additional shares from OraLabs in accordance with the provisions of Section 7.4 for all of the shares that are the subject of Dissenters Rights.

10.18 Cashiers Check. PSHL shall have received a cashier's check from OraLabs in the amount of $30,000 in accordance with the provisions of Section 6.9.

Any of the above conditions can be waived by PSHL or the Shareholders in their sole and absolute discretion.

ARTICLE XI
TERMINATION

11.1 Termination.

(a) This Agreement may be terminated at any time prior to the Closing by OraLabs if the representations or warranties of PSHL or the PSHL Subsidiary in this Agreement are not in all material respects true, accurate and complete or if PSHL or the PSHL Subsidiary breach in any material respect any covenant contained in this Agreement, provided that such misrepresentation or breach is not cured within ten (10) business days after notice thereof, but in any event prior to the Outside Termination Date defined below. If this Agreement is terminated pursuant to this paragraph (a) of section 11.1, this Agreement shall be of no further force or effect, and no obligation, right, or liability shall arise hereunder, except that PSHL shall bear its own costs in connection with the negotiation, preparation, and execution of this Agreement, subject to Section 12.4.

(b)This Agreement may be terminated at any time prior to the Closing by PSHL if the representations or warranties of OraLabs or the OraLabs Subsidiaries in this Agreement are not in all material respects true, accurate and complete or if OraLabs or the OraLabs Subsidiaries breach in any material respect any covenant contained in this Agreement, provided that such misrepresentation or breach is not cured within ten (10) business days after notice thereof, but in any event prior to the Outside Termination Date defined below. If this Agreement is terminated pursuant to this paragraph (b) of section 11.1, this Agreement shall be of no further force or effect, and no obligation, right, or liability shall arise hereunder, except that OraLabs shall bear its own costs incurred in connection with the negotiation, preparation, and execution of this Agreement, subject to Section 12.4.

(c) This Agreement and the transactions contemplated hereby may be terminated at any time by the written mutual consent of the Parties hereto. If this Agreement is terminated pursuant to this paragraph (c) of section 11.1, this Agreement shall be of no further force or effect, and no obligation, right, or liability shall arise hereunder.

(d) If this Agreement is terminated pursuant to Section 11.1(a), 11.1(b), or 11.1(c), written notice thereof shall promptly be given by the party or parties electing such termination to the other party or parties and, subject to the expiration of the cure periods provided therein, if any, this Agreement shall terminate without further actions by the Parties and no party shall have any further obligations under this Agreement. Notwithstanding the preceding sentence, the respective obligations of the Parties under Section 7.5 shall survive the termination of this Agreement.

(e)This Agreement may be terminated by either party if the transactions shall not have been consummated by October 15, 2006 (the "Outside Termination Date") provided the failure of the Closing to occur by such date is not the result of the failure of the party seeking to terminate this Agreement to perform or fulfill any of its obligations hereunder.

(f) This Agreement may be terminated by either party if within the 45- day period that is applicable to the party under Section 9.8

(with respect to OraLabs) and 10.9 (with respect to PSHL), such party gives written notice to the other that it is not satisfied, in its sole and absolute discretion, with the results of its due diligence investigation of the other party pursuant to Sections 9.8 and 10.9.

ARTICLE XII
MISCELLANEOUS

12.1 Governing Law. This Agreement shall be governed by, enforced, and construed under and in accordance with the laws of the United States of America and, with respect to matters of state law, with the internal laws of the State of Colorado without giving effect to its choice of law rules. Except as stated at the end of this paragraph, any dispute, controversy or claim arising under or in any way related to this Agreement or the breach thereof shall only be submitted to and settled by binding arbitration before a single arbitrator by the American Arbitration Association in accordance with the Association's commercial rules then in effect. The arbitration (or legal proceedings described at the end of this paragraph) will only be conducted in Denver, Colorado, which the parties agree is the exclusive venue for the proceedings. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrator may award reasonable attorneys fees to the prevailing party, or if the arbitrator believes that more than one party has prevailed in separate aspects of the arbitration, the arbitrator may award attorneys fees as it deems appropriate. Notwithstanding the foregoing, either party may institute litigation in connection with seeking to enforce rights under Section 7.5.

12.2 Notices. Any notices or other communications required or permitted hereunder shall only be sufficiently given if in writing and hand delivered to it, sent by overnight delivery by a courier service of United States and international recognition (such as Federal Express, DHL or UPS) that provides international delivery, expenses prepaid, or by facsimile addressed as follows:

If to OraLabs, to:	OraLabs Holding Corp. c/o Michael Friess, Authorized Director 5353 Manhattan Circle, Suite 101 Boulder, CO 80303 Telephone: (303) 499-6000 x18 Facsimile: (303) 499-6666 Email: friessco@aol.com
With copies to:	Douglas B. Koff, Esq. Koff, Corn & Berger, P.C. 303 E. 17th Street, Suite 940 Denver, Colorado 80203-1262 Telephone: 303.861.1166 Facsimile: 303.861.0601 Email: dkoff@wckblaw.com
If to PSHL, or any one or More Shareholders, to:	Mr. Wo Hing Li Partner Success Holdings Limited 8th Floor Teda Building 87 Wing Lok Street, Sheungwan Hong Kong Special Administrative Region The People's Republic of China Telephone: (852) Facsimile: (852) Email:
With copies to:	Henry F. Schlueter

Schlueter & Associates P.C.
1050 Seventeenth Street, Suite 1750
Denver, Colorado 80265
Telephone: (303) 292 3883
Facsimile: (303) 296 8880
Email: hfschlueter@hotmail.com

Tracy Hung Wan
Belmont Capital Group Limited
Suite C, 20th Floor, Neich Tower
128 Gloucester Road, Wanchai
Hong Kong Special Administrative Region
The People's Republic of China
Telephone: (852) 2517 6262
Facsimile: (852) 2548 7788
Email: tracyyun@bcghk.com

or such other addresses as shall be furnished in writing by any party in the manner for giving notices hereunder. Each notice or other communication shall only be effective and deemed to have been received (i) if given by facsimile, one business day after such facsimile is transmitted to the facsimile number specified above, and confirmation of delivery by the sender's machine is given, (ii) if given by hand delivery, the date of delivery as evidenced by a written receipt, or (iii) if given by a courier service, the third business day following the business day of deposit with such service, with shipping charges for the most expedited delivery prepaid or prearranged. As used herein, a "business day" means Mondays through Fridays, excluding days (at the location where the notice is to be delivered) that are national bank holidays. Notice to PSHL shall be deemed to be notice to all Shareholders for all purposes.

12.3 Attorneys' Fees. In the event that any party institutes any arbitration proceeding or a litigation proceeding under Section 12.1 to interpret or to enforce this Agreement or the rights of the parties hereunder, the non-prevailing party shall pay to the prevailing party in any such proceeding a reasonable sum for the prevailing party's attorneys' fees and all other reasonable costs and expenses incurred in such action or suit.

12.4 Expenses of Stock Exchange. OraLabs and PSHL agree that they will each bear their own costs and expenses in negotiating and closing the transactions contemplated by this Agreement, including but not limited to, attorneys' fees, except as otherwise expressly provided in this Agreement.

12.5 Third Party Beneficiaries. This contract is solely between OraLabs, PSHL and the Shareholders and, except as specifically provided,nt-size:10pt;">53,033

169,408

148,959

Income (loss) from operations
5,109

(985
)

10,268

(13,083
)
Other (expense) income:

Interest income
171

134

504

237

Interest expense
(1,905
)

(2,037
)

(5,842
)

(6,222
)
Royalty interest obligation
—

(73
)

(71
)

(330
)
Loss on extinguishment of debt
—

—

(51
)

—

Other, net
(8
)

(43
)

(82
)

(120
)
Total other expense, net
(1,742
)

(2,019
)

(5,542
)

(6,435
)
Income (loss) before income taxes
3,367

(3,004
)

4,726

(19,518
)
Income tax expense
(281
)

—

(372
)

—

Net income (loss)
$
3,086

$
(3,004
)

$
4,354

$
(19,518
)

Net income (loss) per share:

Basic net income (loss) per common share
$
0.08

$
(0.08
)

$
0.12

$
(0.56
)
Diluted net income (loss) per common share
$
0.08

$
(0.08
)

$
0.11

$
(0.56
)
Weighted average common shares outstanding:

Basic
36,663

35,943

36,460

35,039

Diluted
41,043

35,943

41,422

35,039

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$3,086	$(3,004)	$4,354	$(19,518)
Other comprehensive income (loss):				
Net unrealized gain (loss) on investments	(2)	39	51	3
Total other comprehensive income (loss)	(2)	39	51	3
Comprehensive income (loss)	$3,084	$(2,965)	$4,405	$(19,515)

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balances at December 31, 2014	36,151	$36	$481,334	$(310,145)	$ (80)	$171,145
Exercise of stock options	521	1	8,797	—	—	8,798
Shares issued under employee stock purchase plan	20	—	1,195	—	—	1,195
Stock-based compensation	—	—	23,640	—	—	23,640
Issuance of common stock upon conversion of convertible senior notes	44	—	3,930	—	—	3,930
Retirement of equity component of convertible senior notes	—	—	(4,100)	—	—	(4,100)
Net unrealized gain on investments	—	—	—	—	51	51
Net income	—	—	—	4,354	—	4,354
Balances at September 30, 2015	36,736	$37	$514,796	$(305,791)	$ (29)	$209,013

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2015	2014 (Note 2)
Operating activities:		
Net income (loss)	$4,354	$(19,518)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of fixed assets and amortization of intangibles	8,356	7,328
Amortization of unfavorable lease obligation and debt issuance costs	361	365
Amortization of debt discount	3,080	3,104
Loss on extinguishment of debt	51	—
Loss on disposal of fixed assets	—	157
Stock-based compensation	23,640	17,199
Changes in operating assets and liabilities:		
Restricted cash	1,509	(196)
Accounts receivable, net	(3,553)	(5,927)
Inventories, net	(26,869)	(8,105)
Prepaid expenses and other assets	(647)	(696)
Accounts payable and accrued expenses	2,034	9,560
Royalty interest obligation	(276)	(641)
Other liabilities	990	2,142
Deferred revenue	(1,069)	7,070
Net cash provided by operating activities	11,961	11,842
Investing activities:		
Purchases of fixed assets	(32,146)	(14,161)
Purchases of short-term investments	(125,197)	(140,410)
Sales of short-term investments	134,984	68,016
Purchases of long-term investments	—	(24,465)
Payment of contingent consideration	(5,127)	(11,720)
Net cash used in investing activities	(27,486)	(122,740)
Financing activities:		
Proceeds from follow-on public offering, net	—	110,407
Proceeds from exercise of stock options and warrants	8,798	5,732
Proceeds from shares issued under employee stock purchase plan	1,195	—
Conversion of principal and equity component of convertible senior notes	(1,466)	—
Net cash provided by financing activities	8,527	116,139
Net (decrease) increase in cash and cash equivalents	(6,998)	5,241
Cash and cash equivalents, beginning of period	37,520	12,515
Cash and cash equivalents, end of period	$30,522	$17,756
Supplemental cash flow information:		
Cash paid for interest, including royalty interest obligation	$4,224	$4,873
Cash paid for income taxes	$199	$—
Non-cash investing and financing activities:		

Issuance of stock from conversion of convertible senior notes	$3,930	$—
Purchases of fixed assets accrued but not paid	$1,660	$616

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—DESCRIPTION OF BUSINESS

Pacira Pharmaceuticals, Inc. and its subsidiaries (collectively, the "Company" or "Pacira") is a specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on its proprietary DepoFoam® extended release drug delivery technology, for use primarily in hospitals and ambulatory surgery centers. The Company's lead product, EXPAREL® (bupivacaine liposome injectable suspension), which consists of bupivacaine encapsulated in DepoFoam, was approved by the United States Food and Drug Administration, or FDA, on October 28, 2011 and launched commercially in April 2012. DepoFoam is also the basis for the Company's other FDA-approved commercial product, DepoCyt(e), which the Company manufactures for its commercial partners.

Pacira is subject to risks common to companies in similar industries and stages of development, including, but not limited to, competition from larger companies, reliance on revenue from few customers and products, reliance on a single manufacturing site, new technological innovations, dependence on key personnel, reliance on third-party service providers and sole source suppliers, protection of proprietary technology and compliance with government regulations.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, and in accordance with the rules and regulations of the Securities and Exchange Commission for interim reporting. Pursuant to these rules and regulations, certain information and footnote disclosures normally included in complete annual financial statements have been condensed or omitted. Therefore, these interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The consolidated financial statements at September 30, 2015, and for the three and nine months ended September 30, 2015 and 2014, are unaudited, but include all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial information set forth herein in accordance with GAAP. The consolidated balance sheet as of December 31, 2014 has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The consolidated financial statements as presented reflect certain reclassifications from previously issued financial statements to conform to the current year presentation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Concentration of Major Customers

The Company’s customers are national and regional wholesalers of pharmaceutical products as well as commercial, collaborative and licensing partners. The Company sells EXPAREL through a drop-ship program under which orders are processed through wholesalers (including AmerisourceBergen Health Corporation, Cardinal Health, Inc. and McKesson Drug Company) without the wholesaler ever taking physical possession of the product. Shipments of EXPAREL are sent directly to individual accounts, such as hospitals, ambulatory surgery centers and individual doctors. The table below includes the percentage of revenue comprised by the Company’s three largest customers (i.e., wholesalers or commercial partners) in each period presented:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Largest customer	33%	34%	32%	33%
Second largest customer	29%	29%	30%	29%
Third largest customer	27%	24%	28%	23%
	89%	87%	90%	85%

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2014-09, Revenue from Contracts with Customers, which requires that an entity recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to its customers. In order to achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. This latest standard defers the effective date of revenue standard ASU 2014-09 by one year and permits early adoption on a limited basis. This update will replace existing revenue recognition guidance under GAAP when it becomes effective for the Company beginning January 1, 2018, with early adoption permitted in the first quarter of 2017. The updated standard will permit the use of either the retrospective or cumulative effect transition method. The Company is continuing to evaluate the impact of these updates on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of ASU 2015-03 is not expected to have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The standard requires entities to measure most inventory “at the lower of cost and net realizable value,” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The standard is effective for the Company prospectively beginning January 1, 2017. The adoption of ASU 2015-11 is not expected to have a material impact on the Company’s consolidated financial statements.

NOTE 3—INVENTORIES

The components of inventories are as follows (in thousands):

	September 30, 2015	December 31, 2014
Raw materials	$16,096	$9,263
Work-in-process	8,866	8,617
Finished goods	31,170	11,383
Total	$56,132	$29,263

NOTE 4—FIXED ASSETS

Fixed assets, summarized by major category, consist of the following (in thousands):

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	September 30, 2015	December 31, 2014
Machinery and laboratory equipment	$31,682	$29,697
Leasehold improvements	30,213	26,350
Computer equipment and software	4,037	3,754
Office furniture and equipment	1,484	1,001
Construction in progress	44,009	19,944
Total	111,425	80,746
Less: accumulated depreciation	(25,102)	(20,114)
Fixed assets, net	$86,323	$60,632

For the three months ended September 30, 2015 and 2014, depreciation expense was $2.8 million and $2.3 million, respectively. For the three months ended September 30, 2015 and 2014, capitalized interest on the construction of manufacturing sites was $0.2 million and $0.1 million, respectively.

For the nine months ended September 30, 2015 and 2014, depreciation expense was $8.1 million and $6.7 million, respectively. For the nine months ended September 30, 2015 and 2014, capitalized interest on the construction of manufacturing sites was $0.6 million and $0.3 million, respectively.

NOTE 5—GOODWILL AND INTANGIBLE ASSETS

In March 2007, the Company acquired from SkyePharma Holding, Inc., or Skyepharma, its California operating subsidiary, referred to herein as the Acquisition. The Company's goodwill arose in April 2012 from a contingent milestone payment to Skyepharma in connection with the Acquisition. The Acquisition was accounted for under Statement of Financial Accounting Standards 141, Accounting for Business Combinations, which was the effective GAAP standard at the Acquisition date. In connection with the Acquisition, the Company agreed to certain earn-out payments based on a percentage of net sales of EXPAREL collected and certain other yet-to-be-developed products, as well as milestone payments for EXPAREL, as follows:

(i) $10.0 million upon the first commercial sale in the United States (met April 2012);
(ii) $4.0 million upon the first commercial sale in a major EU country (United Kingdom, France, Germany, Italy and Spain);
(iii) $8.0 million when annual net sales collected reach $100.0 million (met September 2014);
(iv) $8.0 million when annual net sales collected reach $250.0 million; and
(v) $32.0 million when annual net sales collected reach $500.0 million.

All earn-out payments are treated as additional costs of the Acquisition and, therefore, are recorded as goodwill if and when each contingency is resolved. The first milestone was met in April 2012, resulting in a $10.0 million payment to Skyepharma. The Company recorded this payment net of a $2.0 million contingent consideration liability recognized at the time of the Acquisition, resulting in $8.0 million recorded as goodwill. In September 2014, the Company made an $8.0 million milestone payment to Skyepharma in connection with achieving $100.0 million of annual EXPAREL net sales collected. For purposes of meeting future milestone payments, annual net sales are measured on a rolling quarterly basis. Cumulatively through September 30, 2015, the Company has recorded an additional $12.9 million as goodwill for earn-out payments which are based on a percentage of net sales of EXPAREL collected.

The change in the carrying value of goodwill is summarized as follows (in thousands):

	Carrying Value of Goodwill
Balance at December 31, 2014	$23,761

Percentage payments on collections of net sales of EXPAREL	5,127
Balance at September 30, 2015	$28,888

Intangible assets, net, consist of core technology, developed technology and trademarks and trade names acquired in the Acquisition and are summarized as follows (in thousands):

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	September 30, 2015			December 31, 2014			
	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Estimated Useful Life
Amortizable intangible assets:							
Core technology	$2,900	$ (2,739)	$161	$2,900	$ (2,497)	$403	9 Years
Developed technology	11,700	(11,700)	—	11,700	(11,700)	—	7 Years
Trademarks and trade names	400	(400)	—	400	(400)	—	7 Years
Total intangible assets	$15,000	$ (14,839)	$161	$15,000	$ (14,597)	$403	

Amortization expense for intangible assets was $0.1 million for both the three months ended September 30, 2015 and 2014. Amortization expense for intangible assets was $0.2 million and $0.7 million for the nine months ended September 30, 2015 and 2014, respectively. The approximate future amortization expense for intangible assets, all of which are subject to amortization on a straight-line basis, is as follows (in thousands):

Year	Future Amortization Expense
2015 (remaining three months)	$80
2016	81
Total	$161

NOTE 6—DEBT

The composition of the Company’s debt and financing obligations is as follows (in thousands):

	September 30, 2015	December 31, 2014
Debt:		
Convertible senior notes	$118,534	$120,000
Discount on debt	(13,627)	(16,900)
Total debt, net of debt discount	104,907	103,100
Royalty interest obligation	—	276
Total debt and financing obligations	$104,907	$103,376

On January 23, 2013, the Company completed a private placement of $120.0 million in aggregate principal amount of 3.25% convertible senior notes due 2019, or Notes, and entered into an indenture agreement, or Indenture, with respect to the Notes. The Notes accrue interest at a fixed rate of 3.25% per year, payable semiannually in arrears on February 1 and August 1 of each year. The Notes mature on February 1, 2019.

On or after August 1, 2018, until the close of business on the second scheduled trading day immediately preceding February 1, 2019, holders may convert their Notes at any time. Upon conversion, holders will receive cash up to the principal amount of the Notes and, with respect to any excess conversion value, may receive cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s option. The initial conversion rate for the Notes was 40.2945 shares of common stock per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $24.82 per share of the Company’s common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest.

Holders may convert their Notes prior to August 1, 2018, only if certain circumstances are met. One such circumstance which would allow conversion of the Notes during a calendar quarter would be if during the previous calendar quarter, the sales price of the Company's common stock was greater than 130% of the conversion price then applicable for at least 20 out of the last 30 consecutive trading days of the quarter. During the quarter ended September 30, 2015, this condition for conversion was met. As a result, the Notes are classified as a current obligation and will be convertible until December 31, 2015. As of September 30, 2015, the Notes had a market price of $1,743 per $1,000 principal amount, compared to an estimated conversion value of $1,656. In the event of conversion, holders would forgo all future interest payments, any unpaid accrued interest and the possibility of further stock price appreciation. Upon the receipt of conversion requests, the settlement of the Notes will be

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paid pursuant to the terms of the Indenture, which state that the principal must be settled in cash. In the event that all of the Notes are converted, the Company would be required to repay the $118.5 million in principal value and approximately $77.7 million of cash or issue approximately 1.9 million shares of its common stock (or a combination of cash and shares of its common stock at the Company's option) to settle the conversion premium as of September 30, 2015, causing dilution to the Company's shareholders and/or significant expenditures of the Company's cash and liquid securities. In February 2015, the Company received notice of an election for conversion from one of the holders of the Notes. The principal amount of the conversion request was $1.5 million, which was paid in cash pursuant to the terms of the Indenture in April 2015. The Company elected to settle the conversion premium by issuing 44,287 shares of its common stock, calculated based on a daily volume-weighted adjusted price over a 40 trading-day observation period which ended on April 8, 2015. The Company realized a $0.1 million loss on the extinguishment of the converted Notes.

While the Notes are classified in the Company's consolidated balance sheets at September 30, 2015 and December 31, 2014 as a current obligation, the future convertibility and resulting balance sheet classification of this liability will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company's common stock during the prescribed measurement periods. In the event that the holders of the Notes continue to have the election to convert the Notes at any time during the prescribed measurement period, the Notes will continue to be considered a current obligation and classified as such. Prior to February 1, 2018, in the event that none of the conversion conditions are met in a given quarter, the Notes would be reclassified as a long-term liability.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, an entity must separately account for the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The equity component is recorded in additional paid-in capital in the consolidated balance sheet at the issuance date and that equity component is treated as a discount on the liability component of the Notes. The initial carrying value of the liability component of $95.1 million was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying value of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

The Company allocated the total transaction costs of $4.7 million related to the issuance of the Notes to the liability and equity components of the Notes based on their relative values. Transaction costs attributable to the liability component are amortized to interest expense over the six-year term of the Notes, and transaction costs attributable to the equity component are netted with the equity component in stockholders' equity.

The following table sets forth the total interest expense recognized (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Contractual interest expense	$963	$975	$2,893	$2,925
Amortization of debt issuance costs	153	155	461	465
Amortization of debt discount	1,022	1,035	3,080	3,104
Capitalized interest	(233)	(128)	(592)	(272)
Total	$1,905	$2,037	$5,842	$6,222
Effective interest rate on the Notes	7.22%	7.22%	7.20%	7.22%

NOTE 7—FINANCIAL INSTRUMENTS

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or be paid to transfer a liability in the principal or most advantageous market in an orderly transaction. To increase consistency and comparability in fair value measurements, the FASB established a three-level hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of fair value measurements are:

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- Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- Level 2—Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

- Level 3—Unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The carrying value of financial instruments including cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these items. The fair value of the Notes at September 30, 2015 is calculated utilizing market quotations from an over-the-counter trading market for these Notes (Level 2). The carrying amount and fair value of the Notes are as follows (in thousands):

Financial Liabilities Carried at Historical Cost	Carrying Value	Fair Value Measurements Using		
September 30, 2015		Level 1	Level 2	Level 3
Convertible senior notes *	$104,907	$—	$206,545	$—

* The fair value of the Notes was based on the closing price of the Company's common stock of $41.10 per share at September 30, 2015 compared to a conversion price of $24.82 per share which, if converted, would result in an approximate conversion premium of 1.9 million shares or $77.7 million of cash. The maximum conversion premium that can be due on the Notes is 4.8 million shares, which assumes no increases in the conversion rate for certain corporate events.

Short-term investments consist of asset-backed securities collateralized by credit card receivables, investment grade commercial paper and corporate bonds with maturities greater than three months, but less than one year. Long-term investments consist of corporate bonds with maturities greater than one year. The net unrealized gains and losses from the Company's short-term and long-term investments are reported in other comprehensive income (loss). At September 30, 2015, all of the Company's short-term and long-term investments are classified as available for sale investments and are determined to be Level 2 instruments, which are measured at fair value using standard industry models with observable inputs. The fair value of the commercial paper is measured based on a standard industry model that uses the three-month Treasury bill rate as an observable input. The fair value of the asset-backed securities and corporate bonds is principally measured or corroborated by trade data for identical issues in which related trading activity is not sufficiently frequent to be considered a Level 1 input or that of comparable securities. At September 30, 2015, the Company's short-term investments were rated A or better by Standard & Poor's and had original maturities greater than three months and remaining maturities less than one year. The Company's long-term investments were also rated A or better by Standard & Poor's and had maturities ranging from one to three years.

The following summarizes the Company's investments at September 30, 2015 and December 31, 2014 (in thousands):

September 30, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Level 2)
Debt securities:				
Short-term:				
Asset-backed securities	$30,913	$1	$(2)	$30,912
Commercial paper	25,727	22	—	25,749
Corporate bonds	59,275	3	(23)	59,255
Subtotal	115,915	26	(25)	115,916
Long-term:				
Corporate bonds	17,951	7	(37)	17,921
Total	$133,866	$33	$(62)	$133,837

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December 31, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Level 2)
Debt securities:				
Short-term:				
Asset-backed securities	$15,009	$—	$(9)	$15,000
Commercial paper	1,747	3	—	1,750
Corporate bonds	102,430	—	(42)	102,388
Subtotal	119,186	3	(51)	119,138
Long-term:				
Corporate bonds	24,463	10	(42)	24,431
Total	$143,649	$13	$(93)	$143,569

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets and liabilities acquired in a business combination and long-lived assets, which would be recognized at fair value if deemed to be impaired or if reclassified as assets held for sale. The fair value in these instances would be determined using Level 3 inputs. At September 30, 2015, the Company had no financial instruments that were measured using Level 3 inputs.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, long-term investments and accounts receivable. The Company maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally-insured limits. The Company performs ongoing credit evaluations of its customers as warranted and generally does not require collateral.

As of September 30, 2015, three customers each accounted for over 10% of the Company’s accounts receivable, at 31%, 27% and 27%, respectively. At December 31, 2014, three customers each accounted for over 10% of the Company’s accounts receivable, at 33%, 29% and 27%, respectively (for additional information regarding the Company’s customers, see Note 2, Summary of Significant Accounting Policies). Revenues are primarily derived from major wholesalers and pharmaceutical companies which generally have significant cash resources. Allowances for doubtful accounts receivable are maintained based on historical payment patterns, aging of accounts receivable and the Company’s actual write-off history. As of September 30, 2015 and December 31, 2014, no allowances for doubtful accounts were deemed necessary by the Company on its accounts receivable.

NOTE 8—STOCK PLANS

Stock-Based Compensation

The Company recognized stock-based compensation expense in its consolidated statements of operations as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of goods sold	$1,690	$1,187	$4,379	$2,323
Research and development	1,070	1,823	3,140	5,537
Selling, general and administrative	6,066	4,676	16,121	9,339
Total	$8,826	$7,686	$23,640	$17,199

Stock-based compensation from:				
Stock options (employee awards)	$6,991	$6,249	$19,926	$12,210
Stock options (consultant awards)	402	1,330	1,459	4,882
Restricted stock units (employee awards)	1,257	—	1,626	—
Employee stock purchase plan	176	107	629	107
Total	$8,826	$7,686	$23,640	$17,199

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Employee Stock Purchase Plan

The Company's 2014 Employee Stock Purchase Plan, or ESPP, features two six-month offering periods per year, running from January 1 to June 30 and July 1 to December 31. Under the plan, employees may elect to contribute after-tax earnings to purchase shares at 85% of the fair market value of the Company's common stock on either the offering date or the purchase date, whichever is less. During the nine months ended September 30, 2015, 19,883 shares were purchased under the plan.

Restricted Stock Units

In June 2015, the Company granted a mix of stock options and restricted stock units, or RSUs, to employees and its Board of Directors. The RSUs are authorized as part of the Company's Amended and Restated 2011 Stock Incentive Plan, which was approved by the Company's Board of Directors in April 2014 and stockholders in June 2014.

The following tables contain information about the Company's stock option and RSU activity for the nine months ended September 30, 2015:

Stock Options	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2014	4,677,856	$35.78
Granted	820,281	77.58
Exercised	(521,191)	16.88
Forfeited	(219,858)	61.92
Expired	(13,359)	80.87
Outstanding at September 30, 2015	4,743,729	43.75

Restricted Stock Units	Number of Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	—	$—
Granted	230,796	78.87
Vested	—	—
Forfeited	(7,297)	79.43
Unvested at September 30, 2015	223,499	78.85

NOTE 9—STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income (Loss)

The following table illustrates the changes in the balances of the Company's accumulated other comprehensive income (loss) for the periods presented (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Net unrealized gains (losses) from available for sale investments:		
Balance at beginning of period	$(80)	$5
Other comprehensive income before reclassifications	51	3
Amounts reclassified from accumulated other comprehensive income (loss)	—	—
Balance at end of period	$(29)	$8

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NOTE 10—NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shares by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing the net income (loss) attributable to common shares by the weighted average number of shares outstanding plus dilutive potential common stock outstanding during the period. Potential common shares include the shares of common stock issuable upon the exercise of outstanding stock options and warrants, the vesting of RSUs and the purchase of shares from the ESPP (using the treasury stock method) as well as the conversion of the excess conversion value on the Notes. As discussed in Note 6, Debt, the Company must settle the principal of the Notes in cash upon conversion, and it may settle any conversion premium in either cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's option. For purposes of calculating the dilutive impact of the conversion premium on the Notes, it is presumed that the conversion premium will be settled in common stock. Potential common shares are excluded from the diluted net income (loss) per share computation to the extent that they would be antidilutive. Because the Company reported a net loss for the three and nine months ended September 30, 2014, no potentially dilutive securities have been included in the computation of diluted net loss per share for those periods.

The following table sets forth the computation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss)	$3,086	$(3,004)	$4,354	$(19,518)
Denominator:				
Weighted average shares of common stock outstanding—basic	36,663	35,943	36,460	35,039
Computation of diluted securities:				
Dilutive effect of stock options	1,530	—	1,698	—
Dilutive effect of restricted stock units	3	—	1	—
Dilutive effect of conversion premium on the Notes	2,841	—	3,256	—
Dilutive effect of warrants	6	—	6	—
Dilutive effect of employee stock purchase plan	—	—	1	—
Weighted average shares of common stock outstanding—diluted	41,043	35,943	41,422	35,039
Net income (loss) per share:				
Basic net income (loss) per share of common stock	$0.08	$(0.08)	$0.12	$(0.56)
Diluted net income (loss) per share of common stock	$0.08	$(0.08)	$0.11	$(0.56)

The following outstanding stock options, RSUs, conversion premium on the Notes, warrants and ESPP units are antidilutive in the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average number of stock options	2,235	4,842	1,765	4,285
Weighted average number of restricted stock units	203	—	68	—
Conversion premium on the Notes	—	3,602	—	3,311
Weighted average number of warrants	—	17	—	40
Employee stock purchase plan	16	6	5	2
Total	2,454	8,467	1,838	7,638

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NOTE 11—TAXES

Income (loss) before income taxes is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income (loss) before income taxes:				
Domestic	$3,776	$(3,004)	$6,014	$(19,518)
Foreign	(409)	—	(1,288)	—
Total income (loss) before income taxes	$3,367	$(3,004)	$4,726	$(19,518)

The provision for income taxes is recorded based upon the current estimate of the Company's annual effective tax rate. Generally, the annual effective tax rate is the result of a mix of profits and losses the Company and its subsidiaries earn in multiple tax jurisdictions with different income tax rates. The tax provisions reflect federal alternative minimum taxes as well as state income taxes. Based upon its estimated annual effective tax rate, the Company recorded tax provisions of $0.3 million and $0.4 million for the three and nine months ended September 30, 2015, respectively. The Company's effective tax rate for both the three and nine months ended September 30, 2015 was 8%. The 8% effective tax rate primarily reflects the anticipated utilization of domestic net operating loss carryforwards. There was no tax provision for the three and nine months ended September 30, 2014 due to net operating losses since inception.

NOTE 12—COMMITMENTS AND CONTINGENCIES

Leases

The Company leases research and development, manufacturing and warehouse facilities in San Diego, California which expire in 2020 and its corporate headquarters in Parsippany, New Jersey which expires in March 2028. In November 2014, the Company entered into lease contracts for additional research and development space at the Company's Science Center Campus in San Diego. These leases commenced in August 2015 and expire in October 2020.

As of September 30, 2015, annual aggregate minimum payments due under the Company's lease obligations are as follows (in thousands):

Year	Aggregate Minimum Payments
2015 (remaining three months)	$1,822
2016	7,743
2017	7,878
2018	8,081
2019	8,303
2020 through 2028	15,150
Total	$48,977

CrossLink Agreement

In October 2013, the Company and CrossLink BioScience, LLC, or CrossLink, commenced a five-year arrangement for the promotion and sale of EXPAREL, pursuant to the terms of a Master Distributor Agreement. In February 2015, the Company entered into a Third Amendment to the Master Distributor Agreement (the "Third Amendment") with

CrossLink to, among other things, amend certain payment terms of the agreement and specify certain sub-distributors that may promote and sell EXPAREL under the agreement. Under the terms of the Third Amendment, in the event the Company terminates the agreement, a termination payment based on a percentage of earned performance-based fees will be due to CrossLink.

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Litigation

From time to time, the Company has been and may again become involved in legal proceedings arising in the ordinary course of its business, including those related to patents, product liability and government investigations. Except as described below, the Company is not presently a party to any litigation which it believes to be material, and is not aware of any pending or threatened litigation against the Company which it believes could have a material adverse effect on its business, operating results, financial condition or cash flows.

On October 3, 2014, a purported class action lawsuit was filed in the U.S. District Court for the District of New Jersey against the Company and several of its current officers, Nicholas R. Lovallo v. Pacira Pharmaceuticals, Inc., et al., Case No. 2:14-cv-06172-WHW-CLW. The plaintiff amended the lawsuit on May 29, 2015. The lawsuit asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and is premised on allegedly false and/or misleading statements, and non-disclosure of material facts, regarding the Company's business, operations, prospects and performance during the proposed class period of February 24, 2014 to April 29, 2015. The Company is vigorously defending all claims asserted, including by filing a motion to dismiss. Given the early stage of the litigation, at this time the Company is unable to reasonably estimate possible losses or form a judgment that an unfavorable outcome is either probable or remote. It is not currently possible to assess whether or not the outcome of these proceedings will have a material adverse effect on the Company.

In April 2015, the Company received a subpoena from the U.S. Department of Justice, U.S. Attorney's Office for the District of New Jersey, requiring the production of a broad range of documents pertaining to marketing and promotional practices related to EXPAREL. The Company is cooperating with the government's inquiry. The Company can make no assurances as to the time or resources that will need to be devoted to this inquiry or its final outcome, or the impact, if any, of this inquiry or any proceedings on its business, financial condition, results of operations and cash flows.

On September 8, 2015, the Company, along with two independent physicians, filed a lawsuit in the U.S. District Court for the Southern District of New York against the FDA and other governmental defendants seeking to exercise its lawful right to communicate truthful and non-misleading information about EXPAREL. The complaint outlines the Company's belief that the FDA's warning letter received in September 2014 and regulations restricting the Company's truthful and non-misleading speech about EXPAREL violate the Administrative Procedure Act and the First and Fifth Amendments of the U.S. Constitution. The lawsuit seeks a declaration and injunctive relief to permit the Company to promote EXPAREL consistent with its approved indication and pivotal studies that supported FDA approval. The Company filed a motion for a preliminary injunction which is still pending with the District Court. The FDA has not yet filed an answer to the complaint, which is expected to be filed with the District Court by late December 2015.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q and certain other communications made by us contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including statements about our growth and future operating results, discovery and development of products, strategic alliances and intellectual property. For this purpose, any statement that is not a statement of historical fact should be considered a forward-looking statement. We often use the words "believe," "anticipate," "plan," "expect," "intend," "may," and similar expressions to help identify forward-looking statements. We cannot assure you that our estimates, assumptions and expectations will prove to have been correct. These forward-looking statements include, among others, statements about: the success of our sales and manufacturing efforts in support of the commercialization of EXPAREL®(bupivacaine liposome injectable suspension); the rate and degree of market acceptance of EXPAREL; the size and growth of the potential markets for EXPAREL and our ability to serve those markets; the Company's plans to expand the indications and opportunities of EXPAREL, including nerve block, oral surgery, chronic pain and pediatrics; the related timing and success of a United States Food and Drug Administration, or FDA, supplemental New Drug Applications, or sNDA; the adverse effects and impacts of FDA warning letters; the outcome of the pending U.S. Department of Justice inquiry; the outcome of our lawsuit against the FDA; the Company's plans to evaluate and pursue additional DepoFoam®-based product candidates; clinical studies in support of an existing or potential DepoFoam-based product; the Company's plans to continue to manufacture and provide support services for its commercial partners who have licensed DepoCyt(e); our commercialization and marketing capabilities and our ability and that of Patheon UK Limited, or Patheon, to successfully and timely construct dedicated EXPAREL manufacturing suites. Important factors could cause our actual results to differ materially from those indicated or implied by forward-looking statements. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, and readers should not rely on the forward-looking statements as representing the Company's views as of any date subsequent to the date of the filing of this Quarterly Report on Form 10-Q.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these statements. These factors include items mentioned herein and the matters discussed and referenced in Part I-Item 1A. "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2014 and in other reports as filed with the Securities and Exchange Commission, or SEC.

Unless the context requires otherwise, references to "Pacira," "we," the "Company," "us" and "our" in this Quarterly Report or Form 10-Q refer to Pacira Pharmaceuticals, Inc. and its subsidiaries. In addition, references in this Quarterly Report on Form 10-Q to DepoCyt(e) mean DepoCyt® when discussed in the context of the United States and Canada and DepoCyte® when discussed in the context of Europe.

Overview

We are a specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on our proprietary DepoFoam extended release drug delivery technology, for use primarily in hospitals and ambulatory surgery centers. As of September 30, 2015, our commercial stage products are EXPAREL and DepoCyt(e):

- EXPAREL is a liposome injection of bupivacaine, an amide-type local anesthetic indicated for single-dose administration into the surgical site to produce postsurgical analgesia, and was approved by the FDA on October 28, 2011. We commercially launched EXPAREL in April 2012. We drop-ship EXPAREL directly to the end-user based on orders placed to wholesalers or directly to us, and we have no product held by wholesalers.

- DepoCyt(e) is a sustained release liposomal formulation of the chemotherapeutic agent cytarabine and is indicated for the intrathecal treatment of lymphomatous meningitis. DepoCyt(e) was granted accelerated approval by the FDA in

1999 and full approval in 2007. We sell DepoCyt(e) to our commercial partners located in the United States and Europe.

We expect to continue to incur significant expenses as we commercialize EXPAREL; pursue expanded uses of EXPAREL, such as for nerve block, oral surgery, chronic pain and pediatrics; advance the development of DepoFoam-based product candidates, such as DepoMeloxicam and DepoTranexamic Acid; seek FDA approval for our product candidates that successfully complete clinical trials; develop our sales force and marketing capabilities to prepare for their commercial launch; expand and enhance our manufacturing capacity for EXPAREL and support regulatory and legal matters.

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Recent Highlights and Developments

- Total revenues increased $10.2 million, or 20%, in the three months ended September 30, 2015, as compared to the same period in 2014, primarily driven by EXPAREL product sales of $59.7 million. Our gross margin improved to 74% in the three months ended September 30, 2015, up from 61% for the same period in 2014. For the nine months ended September 30, 2015 as compared to the same period in 2014, total revenues increased $43.8 million, or 32%, and our gross margin improved to 71%, up from 57%. Additionally, we had net income for the fourth consecutive quarter.
- In connection with a warning letter received from the FDA's Office of Prescription Drug Promotion, or OPDP, in September 2014, which is discussed below, in September 2015, we along with two independent physicians filed a lawsuit in federal court against the FDA and other governmental defendants seeking to exercise our lawful rights to communicate truthful and non-misleading information about EXPAREL. The complaint outlines our belief that the FDA's warning letter and regulations restricting our truthful and non-misleading speech about EXPAREL violate the Administrative Procedure Act and the First and Fifth Amendments of the U.S. Constitution. The lawsuit seeks a declaration and injunctive relief to permit us to promote EXPAREL consistent with its approved indication and pivotal studies that supported FDA approval.
- The September 2014 warning letter pertained to certain promotional aspects of EXPAREL, and in February 2015, an agreement was reached with the OPDP on the content and mechanisms for distribution of a Dear Healthcare Provider Letter and a corrective journal advertisement. We received a close-out letter in July 2015. The warning letter no longer appears on the FDA's website. We have communicated to our sales force and through other promotional channels the following points to customers thoroughly and accurately:
- EXPAREL is indicated for single-dose administration into the surgical site to produce postsurgical analgesia. FDA approval of EXPAREL was based on pivotal trials conducted in excisional hemorrhoidectomy and bunionectomy surgical models, and thus, the basis for assessment of safety and efficacy is limited to those two procedures.

- Regarding duration of efficacy in the hemorrhoidectomy trial, EXPAREL demonstrated a significant reduction in pain intensity scores compared to placebo for up to 24 hours. The primary endpoint of the study, cumulative pain scores over the first 72 hours, was statistically superior to placebo, however there was minimal to no difference in pain intensity scores between EXPAREL and placebo from 24 to 72 hours. There was a cumulative decrease in opioid consumption through 72 hours, the clinical benefit of which was not demonstrated.

- As of September 30, 2015, our oral surgery trial has begun enrollment in two sites. We anticipate completing enrollment in the first quarter of 2016.
- In March 2015, we requested a meeting with the FDA to discuss a new DepoFoam spray manufacturing process for EXPAREL. In May 2015, we received feedback from the FDA's Division of Anesthesia, Analgesia, and Addiction Products, or DAAAP, that the proposed approach to demonstrate comparability and to provide adequate data in support of the spray process appears acceptable. Based on this feedback, we intend to pursue the manufacturing of DepoFoam-based products using the spray process.
- In March 2015, we received a Complete Response Letter from the FDA following a review of our sNDA for the use of EXPAREL in nerve block to provide postsurgical analgesia, and in May 2015 we completed the end-of-review process with the DAAAP. Based upon FDA guidance that the expected use of EXPAREL will be for a broad spectrum of nerve blocks and not limited to the narrow indication of a single nerve block, we plan to conduct additional Phase 3 studies for upper extremity and lower extremity nerve blocks, and expect to initiate these studies by the end of 2015.
- In April 2015, we received a subpoena from the U.S. Department of Justice, or DOJ, U.S. Attorney's Office for the District of New Jersey requiring the production of a broad range of documents pertaining to marketing and promotional practices related to EXPAREL. We are cooperating with the government's inquiry. We can make no assurances as to the time or resources that will need to be devoted to this inquiry or its final outcome, or the impact, if any, of this inquiry or any proceedings on our business, financial condition, results of operations and cash flows.

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Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2015 and 2014

Revenues

Our net product sales include sales of EXPAREL in the United States and DepoCyt(e) in the United States and Europe. We also earn royalties based on sales by commercial partners of DepoCyt(e) and license fees and milestone payments for development work by third parties.

The following table provides information regarding our revenues during the periods indicated, including percent changes (dollars in thousands):

	Three Months Ended September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2015	2014		2015	2014	
Net product sales:						
EXPAREL	$59,729	$50,219	19%	$172,657	$129,535	33%
DepoCyt(e)	1,421	701	103%	3,640	3,162	15%
Total net product sales	61,150	50,920	20%	176,297	132,697	33%
Collaborative licensing and development revenue	357	357	—%	1,069	930	15%
Royalty revenue	706	771	(8)%	2,310	2,249	3%
Total revenues	$62,213	$52,048	20%	$179,676	$135,876	32%

EXPAREL revenue grew 19% and 33% in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, primarily due to increases in sales volume of 15% and 27% in those respective periods. The strong demand for EXPAREL has continued as a result of new accounts and growth within existing accounts, which has been driven by continued adoption of EXPAREL use in soft tissue and orthopedic procedures. The remaining increase in EXPAREL revenue was due to 5% price increases effective May 2014 and April 2015, offset by lower pricing on government sales resulting from our participation in the Federal Supply Schedule beginning in August 2015.

DepoCyt(e) product sales increased 103% and 15% in the three and nine months ended September 30, 2015 compared to the same periods in 2014, respectively. DepoCyt(e) product sales increased in the three and nine month periods 2015 versus 2014 primarily as a result of an increase in the number of vials sold, which was partially offset by a decrease in the value of the Euro during 2015.

Collaborative licensing and development revenue increased 15% in the nine months ended September 30, 2015, compared to the same period in 2014. The increase for the nine months ended September 30, 2015 was primarily driven by the receipt of an $8.0 million non-refundable upfront payment in May 2014 from Mundipharma International Corporation Limited, or Mundipharma, in connection with the grant of rights to DepoCyt(e) in certain countries, which is being recognized on a straight-line basis over the contractual term which expires in June 2033. Collaborative licensing and development revenue remained at a constant level in the three months ended September 30, 2015 and 2014.

Royalty revenue reflects royalties earned on collections of end-user sales of DepoCyt(e) by our commercial partners.

Cost of Goods Sold

Cost of goods sold primarily relates to the costs to produce, package and deliver our products to customers. These expenses include labor, raw materials, manufacturing overhead and occupancy costs, depreciation of facilities, royalty payments, quality control and engineering.

The following table provides information regarding our cost of goods sold and gross margin as a percentage of product-related revenues during the periods indicated, including percent changes (dollar amounts in thousands):

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	Three Months Ended September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2015	2014		2015	2014	
Cost of goods sold	$15,901	$20,391	(22)%	$52,409	$58,472	(10)%
Gross margin *	74 %	61 %		71 %	57 %	

* The gross margin calculation excludes collaborative licensing and development revenue.

The decrease in cost of goods sold in the three and nine months ended September 30, 2015 versus the same periods in 2014 was due to a lower manufacturing cost per vial, which was driven by increased utilization of our facilities located in San Diego, California to manufacture EXPAREL. In 2015, the full-period benefit of additional capacity from the commencement of two new manufacturing lines dedicated to EXPAREL during 2014, and the absence of related manufacturing line start-up costs contributed to the increased utilization of our facilities in both periods presented. The improvement in our gross margin for the three and nine months ended September 30, 2015 as compared to the same periods in 2014 reflects the increased utilization of our facilities to manufacture EXPAREL. The improvements in lower manufacturing costs per vial and gross margin percentage were sustained in spite of unplanned shutdown costs of $0.7 million and $2.3 million in the three and nine months ended September 30, 2015, respectively.

Research and Development Expenses

Research and development expenses consist primarily of costs related to clinical studies and related outside services, stock-based compensation expenses and other research and development costs, including Phase 4 studies that are required as a condition of FDA approval or are conducted to generate new data such as dosing and administration techniques. Clinical study expenses include costs for clinical personnel, clinical studies performed by third-party contract research organizations, materials and supplies, database management and other third-party fees. Product development and other expenses include development costs for our pipeline products and medical information expenses, which include personnel, equipment, materials and contractor costs for both new process development and new product candidates, toxicology studies and facility costs for our research space. Stock-based compensation expense relates to the costs of stock option grants, awards of restricted stock units, or RSUs, and our employee stock purchase plan, or ESPP.

The following table provides information regarding our research and development expenses during the periods indicated, including percent changes (dollar amounts in thousands):

	Three Months Ended September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2015	2014		2015	2014	
Clinical studies	$2,119	$1,128	88%	$5,281	$4,717	12%
Product development and other	2,704	1,474	83%	7,088	4,590	54%
Stock-based compensation	1,070	1,823	(41)%	3,140	5,537	(43)%
Total research and development expense	$5,893	$4,425	33%	$15,509	$14,844	4%
% of total revenues	9 %	9 %		9 %	11 %	

Research and development expenses increased 33% in the three months ended September 30, 2015 compared to the same period in 2014, mainly due to a $1.0 million increase in clinical study expense, a $1.2 million increase in product development and toxicology expenses, partially offset by an $0.8 million decrease in stock-based compensation expense due to the requirement to revalue non-employee options. The increase in clinical study expense reflects start-up expenses for our new upper and lower extremity nerve block trials, enrollment in our oral surgery trial and a larger clinical workforce to manage our increasing investment in research and development initiatives. We also

increased our investment in our pipeline drug candidates, DepoTranexamic Acid and DepoMeloxicam.

In the nine months ended September 30, 2015 versus the same period in 2014, the 4% increase in research and development expense was largely attributable to a $2.5 million increase for product development and other expenses reflecting the development of a new EXPAREL DepoFoam spray manufacturing process, DepoTranexamic Acid and DepoMeloxicam, additional resources to support medical information activities and additional facility expenses to support research and development initiatives. Clinical study expense increased by $0.6 million primarily due to start-up expenses for our new nerve block trials, our oral surgery trial, and Phase 4 studies to demonstrate the safety of EXPAREL in the presence of bupivacaine

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spinal nerve block and femoral nerve block. Stock based compensation decreased $2.4 million in the period due to the requirement to revalue non-employee options.

Selling, General and Administrative Expenses

Sales and marketing expenses primarily consist of compensation and benefits for our sales force and personnel that support our sales, marketing, medical and scientific affairs operations, commission payments to CrossLink BioScience, LLC, or CrossLink, for the promotion and sale of EXPAREL and expenses related to communicating health outcome benefits of EXPAREL patients and educational programs for our customers. General and administrative expenses consist of compensation and benefits for legal, finance, regulatory, compliance, information technology, human resources, executive management and other supporting personnel. It also includes professional fees for legal, audit, tax and consulting services. Stock-based compensation expense relates to the costs of stock option grants, RSU awards, and our ESPP.

The following table provides information regarding our selling, general and administrative expenses during the periods indicated, including percent changes (dollar amounts in thousands):

	Three Months Ended September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2015	2014		2015	2014	
Sales and marketing	$18,170	$17,083	6%	$55,694	$46,948	19%
General and administrative	11,074	6,458	71%	29,675	19,356	53%
Stock-based compensation	6,066	4,676	30%	16,121	9,339	73%
Total selling, general and administrative expenses	$35,310	$28,217	25%	$101,490	$75,643	34%
% of total revenues	57 %	54 %		56 %	56 %	

Selling, general and administrative expenses increased 25% and 34% in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014.

Sales and marketing expenses increased by 6% in the three months ended September 30, 2015, compared to the same period in 2014, primarily due to a $1.7 million increase in compensation and benefits driven by an increase in the number of field-based sales and medical affairs personnel in conjunction with our expanded sales and marketing efforts, partially offset by a $1.0 million decrease in spending from restructuring our contract with CrossLink. Sales and marketing expenses increased 19% in the nine months ended September 30, 2015, compared to the same period in 2014, due to a $6.4 million increase in compensation and benefits resulting from an increase in the number of field-based sales and medical affairs personnel and a $1.9 million increase in promotional spending. Both the three and nine month periods included payments to CrossLink, spending on educational initiatives and programs to create product awareness in the orthopedic market and other selling and promotional activities to support the growth of EXPAREL.

General and administrative expenses increased 71% and 53% in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. Increases in legal costs were $3.2 million for the three month period and $5.9 million for the nine month period. These increases included legal fees for the DOJ subpoena received in April 2015 as well as our FDA-related activities, including our lawsuit filed against them in September 2015. In the corresponding periods, increases in personnel led to increased compensation and benefits expense of $0.6 million and $2.1 million, respectively. Additionally, in the three and nine months ended September 30, 2015, there were increases of $1.0 million and $2.4 million in costs, respectively, primarily to support human resources, information technology, compliance and corporate communications activities.

Stock-based compensation increased $1.4 million and $6.8 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014 largely due to increases in headcount and significantly higher grant date fair values of our equity awards.

Other Income (Expense)

The following table provides the components of other income (expense) during the periods indicated, including percent changes (dollar amounts in thousands):

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	Three Months Ended September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2015	2014		2015	2014	
Interest income	$171	$134	28%	$504	$237	113%
Interest expense	(1,905)	(2,037)	(6)%	(5,842)	(6,222)	(6)%
Royalty interest obligation	—	(73)	(100)%	(71)	(330)	(78)%
Loss on extinguishment of debt	—	—	N/A	(51)	—	N/A
Other, net	(8)	(43)	(81)%	(82)	(120)	(32)%
Total other expense, net	$(1,742)	$(2,019)	(14)%	$(5,542)	$(6,435)	(14)%

Total other expense, net decreased by 14% in both the three and nine months ended September 30, 2015, compared to the same periods in 2014, primarily due to an increase in interest income arising from higher average investment balances, a decrease in interest expense due to higher capitalized interest and a decrease in royalty interest expense due to the expiration of our DepoCyt(e) royalty obligation.

Income Tax Expense

The following table provides information regarding our income tax expense during the periods indicated, including percent changes (dollar amounts in thousands):

	Three Months Ended September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2015	2014		2015	2014	
Income tax expense	$281	$—	N/A	$372	$—	N/A
Effective tax rate	8%	—		8%	—	

The provision for income taxes is recorded based upon the current estimate of our annual effective tax rate. Generally, the annual effective tax rate is the result of a mix of profits and losses we and our subsidiaries earn in multiple tax jurisdictions with different income tax rates. The tax provisions reflect federal alternative minimum taxes as well as state income taxes. Based upon our estimated annual effective tax rate, we have recorded tax provisions of $0.3 million and $0.4 million for the three and nine months ended September 30, 2015, respectively. The 8% effective tax rates for the three and nine months ended September 30, 2015 primarily reflect the anticipated utilization of domestic net operating loss carryforwards. Prior to the fourth quarter of 2014, there had been no provision for federal and state income taxes since we had incurred net operating losses since inception.

Liquidity and Capital Resources

Since our inception in December 2006, we have devoted most of our cash resources to manufacturing, research and development and selling, general and administrative activities related to the development and commercialization of EXPAREL. We have financed our operations primarily with the proceeds from the sale of convertible senior notes, convertible preferred stock, common stock, secured and unsecured notes, borrowings under debt facilities, product sales and collaborative licensing and development revenue.

We are highly dependent on the commercial success of EXPAREL, which was launched in April 2012. As of September 30, 2015, we had an accumulated deficit of $305.8 million, cash and cash equivalents, short-term investments and long-term investments of $164.4 million and working capital of $87.7 million.

Summary of Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated (in thousands):

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	Nine Months Ended September 30,	
	2015	2014
Net cash provided by (used in):		
Operating activities	$11,961	$11,842
Investing activities	(27,486)	(122,740)
Financing activities	8,527	116,139
Net (decrease) increase in cash and cash equivalents	$(6,998)	$5,241

Operating Activities

During the nine months ended September 30, 2015, our net cash provided by operating activities was $12.0 million, which largely resulted from increased revenues and a significantly improved gross margin versus the nine months ended September 30, 2014. Positive cash flow from operations reflected net income of $4.4 million plus $35.5 million in add backs of non-cash expenses composed of $23.6 million of stock-based compensation and $11.8 million of depreciation and amortization, partially offset by a $27.9 million net investment in operating assets and liabilities, including a substantial investment in inventory. During the nine months ended September 30, 2014, our net cash provided by operating activities was $11.8 million. The $19.5 million net loss was more than offset by $28.2 million in add backs of non-cash expenses composed of $17.2 million of stock-based compensation and $10.8 million of depreciation and amortization and $3.2 million in proceeds from changes in operating assets and liabilities, including an $8.0 million upfront payment from Mundipharma in connection with the extension and expansion of their existing supply and distribution agreements for DepoCyte.

Investing Activities

During the nine months ended September 30, 2015, our net cash used in investing activities was $27.5 million which reflected purchases of fixed assets of $32.1 million and contingent consideration payments of $5.1 million related to the March 2007 acquisition of Skyepharma Holding, Inc., or Skyepharma, partially offset by $9.8 million of short-term investment maturities, net of purchases. During the nine months ended September 30, 2014, our net cash used in investing activities was $122.7 million, which consisted of $14.2 million in purchases of fixed assets, net purchases of $96.9 million of short-term and long-term investments and $11.7 million in contingent consideration payments to Skyepharma, including an $8.0 million milestone payment for the achievement of $100.0 million of annual EXPAREL net sales collected.

Financing Activities

During the nine months ended September 30, 2015, our net cash provided by financing activities was $8.5 million, which reflected proceeds from the exercise of stock options of $8.8 million and proceeds from the issuance of shares under our employee stock purchase plan of $1.2 million. The increase was partially offset by the cash settlement of $1.5 million in principal of our convertible senior notes. During the nine months ended September 30, 2014, our net cash provided by financing activities was $116.1 million, which reflected net proceeds of $110.4 million from the sale of 1.84 million shares of common stock in an underwritten public offering and proceeds from the exercise of stock options and warrants of $5.7 million.

Convertible Senior Notes

On January 23, 2013, we completed a private offering of $120.0 million in aggregate principal, 3.25% convertible senior notes due 2019, or Notes. The net proceeds from the Notes offering were $115.3 million, after deducting the initial purchasers' discounts and commissions as well as offering expenses. The Notes accrue interest at a rate of

3.25% per annum, payable semiannually in arrears on February 1 and August 1 of each year, and mature on February 1, 2019. As of September 30, 2015, the outstanding principal on the Notes was $118.5 million.

On or after August 1, 2018, until the close of business on the second scheduled trading day immediately preceding February 1, 2019, holders may convert their Notes at any time. Upon conversion, holders will receive cash up to the principal amount of the Notes and, with respect to any excess conversion value, may receive cash, shares of our common stock or a combination of cash and shares of our common stock, at our option. The conversion rate for the Notes is initially 40.2945 shares of common stock per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $24.82 per share of our common stock. The conversion rate will be subject to adjustment for some events (as outlined in the indenture governing the Notes), but will not be adjusted for any accrued and unpaid interest. Additionally, during any calendar

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quarter, the holders have the right to convert if our stock price closes at or above 130% of the conversion price then applicable (the "Consecutive Sales Price") during a period of at least 20 out of the last 30 consecutive trading days of any given quarter.

During the three months ended September 30, 2015, the requirements with respect to the Consecutive Sales Price were met and, as a result, the Notes are classified as a current obligation and are convertible at any time during the quarter ended December 31, 2015. The future convertibility and resulting balance sheet classification of the Notes will be monitored on a quarterly basis. Prior to February 1, 2018, in the event such requirements are not met in a given quarter, the Notes would be reclassified as a long-term liability. In the event of conversion, holders would forgo all future interest payments and the possibility of further stock price appreciation. In the event that all of the Notes are converted, we would be required to repay the $118.5 million in principal value and approximately $77.7 million of cash or issue approximately 1.9 million shares of our common stock (or a combination of cash and shares of our common stock at our option) to settle the conversion premium as of September 30, 2015, causing dilution to our current shareholders and/or significant expenditures of our cash and liquid securities.

In February 2015, we received notice of an election for conversion from a holder of the Notes. The principal amount of the conversion request was $1.5 million which was paid in cash in April 2015 pursuant to the terms of an indenture agreement with respect to the Notes. We elected to settle the conversion premium by issuing 44,287 shares of our common stock, calculated based on a daily volume-weighted average price over a 40 trading-day observation period which ended on April 8, 2015.

See Note 6, Debt, to our consolidated financial statements included herein for further discussion of the Notes.

Future Capital Requirements

We believe that our existing cash and cash equivalents, short-term and long-term investments and cash received from product sales will be sufficient to enable us to fund our operating expenses, capital expenditure requirements, payment of the principal on any conversions of the Notes and to service our indebtedness for at least the next 12 months. Our future use of cash will depend on many forward-looking factors, including, but not limited to, the following:

- our ability to successfully continue to expand the commercialization of EXPAREL;
- the cost and timing of expanding our manufacturing facilities for EXPAREL and our other product candidates, including costs associated with certain technical transfer activities and the construction of manufacturing suites at Patheon's Swindon, United Kingdom facility;
- the timing of and extent to which the holders of our Notes elect to convert the Notes;
- the cost and timing of potential milestone payments to Skyepharma;
- costs related to legal and regulatory issues;
- the costs of performing additional clinical trials for EXPAREL, including the pediatric trials required by the FDA as a condition of approval, and costs of development for our other product candidates; and
- the extent to which we acquire or invest in products, businesses and technologies.

We may require additional debt or equity financing to meet our future operating and capital requirements. We have no committed external sources of funds, and additional equity or debt financing may not be available on acceptable terms, if at all.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements as of September 30, 2015, except for operating leases, nor do we have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities. None of our operating leases have, or are reasonably likely to have, a current or future material effect on our financial condition or changes in financial condition.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies since December 31, 2014. However, see Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included herein for a discussion of recently issued accounting pronouncements and their impact or future potential impact on our financial results, if determinable. For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of

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our consolidated financial statements, refer to our most recent Annual Report on Form 10-K for the year ended December 31, 2014.

Revenue Recognition

Our principal sources of revenue include (i) sales of EXPAREL in the United States, (ii) sales of DepoCyt(e) in the United States and Europe, (iii) royalties based on sales by commercial partners of DepoCyt(e) and (iv) license fees, milestone payments and reimbursement for development work from third parties. We recognize revenue when there is persuasive evidence that an arrangement exists, title has passed, collection is reasonably assured and the price is fixed or determinable.

Net Product Sales

We sell EXPAREL through a drop-ship program under which orders are processed through wholesalers based on orders of the product placed by end-users which include hospitals, ambulatory surgery centers and doctors. EXPAREL is delivered directly to the end-user without the wholesaler ever taking physical possession of the product. We record revenue at the time the product is delivered to the end-user. We also recognize revenue from products manufactured and supplied to commercial partners, such as DepoCyt(e) upon shipment. Prior to the shipment of manufactured products, we conduct initial product release and stability testing in accordance with current Good Manufacturing Practices.

Revenues from sales of products are recorded net of returns allowances, prompt payment discounts, wholesaler service fees and volume rebates and chargebacks. The calculation of some of these items requires management to make estimates based on sales data, contracts, inventory data and other related information which may become known in the future. We review the adequacy of our provisions on a quarterly basis.

Returns Allowances

We allow customers to return product that is damaged or received in error. In addition, we allow EXPAREL to be returned beginning six months prior to, and twelve months following, product expiration. As EXPAREL is a recently commercially available product, we estimate our sales returns reserve based on return history from other hospital-based products with similar distribution models and our historical experience, which we believe is the best estimate of the anticipated product to be returned. The returns reserve is recorded at the time of sale as a reduction to gross product sales and an increase in accrued expenses.

Our commercial partners can return Depocyt(e) within contractually specified timeframes if the product does not meet the applicable inspection tests. We estimate our returns reserves based on our experience with historical return rates. Historically, our product returns have not been material.

Prompt Payment Discounts

The prompt payment reserve is based upon discounts offered to wholesalers as an incentive to meet certain payment terms. We accrue discounts to wholesalers based on contractual terms of agreements and historical experience. We account for these discounts at the time of sale as a reduction to gross product sales and a reduction to accounts receivable.

Wholesaler Service Fees

Our customers include major and regional wholesalers with whom we have contracted a fee for service based on a percentage of gross product sales. This fee for service is recorded as a reduction to gross product sales and an increase to accrued expenses at the time of sale, and is recorded based on the contracted percentage.

Volume Rebates and Chargebacks

Volume rebates and chargeback reserves are based upon contracted discounts and promotional offers we provide to certain end-users such as members of group purchasing organizations. Volume rebates are recorded at the time of sale as a reduction to gross product sales and an increase in accrued expenses. Chargeback reserves are recorded at the time of sale as a reduction to gross product sales and a reduction to accounts receivable.

The following tables provide a summary of activity with respect to our sales related allowances and accruals for the nine months ended September 30, 2015 and 2014 (in thousands):

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September 30, 2015	Returns Allowances	Prompt Pay Discounts	Wholesaler Service Fees	Volume Rebates and Chargebacks	Total
Balance at December 31, 2014	$1,559	$575	$588	$321	$3,043
Provision	256	3,535	2,548	1,317	7,656
Payments/Credits	(70)	(3,512)	(2,545)	(1,002)	(7,129)
Balance at September 30, 2015	$1,745	$598	$591	$636	$3,570

September 30, 2014	Returns Allowances	Prompt Pay Discounts	Wholesaler Service Fees	Volume Rebates and Chargebacks	Total
Balance at December 31, 2013	$897	$313	$266	$402	$1,878
Provision	675	2,635	1,899	483	5,692
Payments/Credits	(157)	(2,419)	(1,695)	(696)	(4,967)
Balance at September 30, 2014	$1,415	$529	$470	$189	$2,603

Total reductions of gross product sales from sales-related allowances and accruals were $7.7 million and $5.7 million, or 4.2% and 4.1% of gross product sales for the nine months ended September 30, 2015 and 2014, respectively. The overall increase in sales-related allowances and accruals was directly related to the increase in EXPAREL sales. The slight increase in the percentage of sales-related allowances and accruals for the nine months ended September 30, 2014 to 2015 related primarily to an increase in rebates due to a greater number of accounts being added while existing accounts have achieved higher sales volumes resulting in a greater amount of rebates. This increase was partially offset by a reduction in our estimate of product returns based on historical returns experience. As a percentage of gross product sales, the prompt payment discounts and wholesaler service fees remained consistent in the nine months ended September 30, 2014 versus 2015.

Contractual Obligations

In October 2013, we and CrossLink commenced a five-year arrangement for the promotion and sale of EXPAREL, pursuant to the terms of a Master Distributor Agreement. In February 2015, we entered into a Third Amendment to the Master Distributor Agreement (the “Third Amendment”) with CrossLink to, among other things, amend certain payment terms of the agreement and specify certain sub-distributors that may promote and sell EXPAREL under the agreement. Under the terms of the Third Amendment, in the event we terminate the agreement, a termination payment based on a percentage of earned performance-based fees will be due to CrossLink.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our cash investment activities is to preserve principal while at the same time maximizing the income that we receive from our investments without significantly increasing risk. Some of the securities that we invest in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the interest rate later rises, we expect the fair value of our investment will decline. A hypothetical 100 basis point increase in interest rates reduces the fair value of our available-for-sale securities at September 30, 2015 by approximately $0.2 million. To minimize this risk, we maintain our portfolio of cash equivalents and marketable securities in a variety of securities, which may include commercial paper, government and non-government debt securities, asset-backed securities and/or money market funds that invest in such securities.

Most of our transactions are conducted in United States dollars. We do have certain agreements with commercial partners located outside the United States, which have transactions conducted in Euros. As of September 30, 2015, we had approximately $1.3 million in receivables from customers denominated in currencies other than the United States dollar. A hypothetical 10% change in foreign exchange rates would have a potential impact on our revenue of approximately $0.1 million for the quarter ended September 30, 2015.

Our Notes carry a fixed interest rate and, thus, we are not subject to interest rate risk with respect to the Notes.

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Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, which are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chairman and President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on their evaluation with participation of our management, our Chief Executive Officer and Chairman and President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable but not absolute assurance that the objectives of the disclosure controls and procedures are met. The design of any disclosure control and procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we have been and may again become involved in legal proceedings arising in the ordinary course of our business. Except as described below, we are not presently a party to any litigation that we believe to be material and we are not aware of any pending or threatened litigation against us that we believe could have a material adverse effect on our business, operating results, financial condition or cash flows.

On October 3, 2014, a purported class action lawsuit was filed in the U.S. District Court for the District of New Jersey against us and several of our current officers, Nicholas R. Lovallo v. Pacira Pharmaceuticals, Inc., et al., Case No. 2:14-cv-06172-WHW-CLW. The plaintiff amended the lawsuit on May 29, 2015. The lawsuit asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and is premised on allegedly false and/or misleading statements, and non-disclosure of material facts, regarding our business, operations, prospects and performance during the proposed class period of February 24, 2014 to April 29, 2015. We are vigorously defending all claims asserted, including by filing a motion to dismiss.

In April 2015, we received a subpoena from the U.S. Department of Justice, U.S. Attorney's Office for the District of New Jersey, requiring the production of a broad range of documents pertaining to marketing and promotional practices related to EXPAREL. We are cooperating with the government's inquiry. We can make no assurances as to the time or resources that will need to be devoted to this inquiry or its final outcome, or the impact, if any, of this inquiry or any proceedings on our business, financial condition, results of operations and cash flows.

On September 8, 2015, we, along with two independent physicians, filed a lawsuit in the U.S. District Court for the Southern District of New York against the FDA and other governmental defendants seeking to exercise our lawful rights to communicate truthful and non-misleading information about EXPAREL. The complaint outlines our belief that the FDA's warning letter received in September 2014 and regulations restricting our truthful and non-misleading speech about EXPAREL violate the Administrative Procedure Act and the First and Fifth Amendments of the U.S.

Constitution. The lawsuit seeks a declaration and injunctive relief to permit us to promote EXPAREL consistent with its approved indication and pivotal studies that supported FDA approval. We filed a motion for a preliminary injunction which is still pending with the District Court. The FDA has not yet filed an answer to the complaint, which is expected to be filed with the District Court by late December 2015.

Item 1A. RISK FACTORS

You should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 and set forth below, which could materially affect our business, financial condition, cash flows or future results. Except as set forth below, there have been no material changes in our risk factors included in our Annual

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Report on Form 10-K for the year ended December 31, 2014. The risks described herein and in our Annual Report on Form 10-K for the year ended December 31, 2014 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

We are involved in an ongoing inquiry by the United States Department of Justice, the results of which could result in significant liability and have a material adverse effect on our sales, financial condition, results of operations and cash flows.

In April 2015, we received a subpoena from the U.S. Department of Justice, U.S. Attorney's Office for the District of New Jersey, requiring the production of a broad range of documents pertaining to marketing and promotional practices related to EXPAREL. We are cooperating with the government's inquiry. We cannot estimate what impact this inquiry and any results from this inquiry or any proceedings could have on our business, financial condition, results of operations or cash flows. Cooperation with this inquiry may divert the attention of management and require the devotion of a substantial amount of time and resources. The existence of the inquiry could also adversely impact our sales activity or our customers' perception of us or EXPAREL. Any of these impacts could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If, as a result of this inquiry, proceedings are initiated and we are found to have violated one or more applicable laws, we may be subject to significant liability, including without limitation, civil fines, criminal fines and penalties, civil damages and exclusion from federal funded healthcare programs such as Medicare and Medicaid, as well as potential liability under the federal False Claims Act and state false claims acts, and/or be required to enter into a corporate integrity or other settlement with the government, any of which could materially affect our reputation, business, financial condition, results of operations and cash flows. Conduct giving rise to such liability could also form the basis for private civil litigation by third-party payors or other persons allegedly harmed by such conduct. In addition, if some of our existing business practices are challenged as unlawful, we may have to change those practices, including changes and impacts on the practices of our sales force, which could also have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business could be materially adversely affected if the FDA determines that we are promoting or have in the past promoted the "Off-label" use of drugs.

The FDA strictly regulates marketing, labeling, advertising and promotion of prescription drugs. These regulations include standards and restrictions for direct-to-consumer advertising, industry-sponsored scientific and educational activities, promotional activities involving the internet and off-label promotion. According to these regulations, companies may not promote drugs for "Off-label" uses—that is, uses that are not described in the product's labeling and that differ from those that were approved by the FDA. For example, the FDA-approved label for EXPAREL does not include an indication in obstetrical paracervical block anesthesia. In addition to the FDA approval required for new formulations, any new indication for an approved product also requires FDA approval. If we are not able to obtain FDA approval for any desired future indications for our products and product candidates, our ability to effectively market and sell our products may be reduced and our business may be adversely affected.

While physicians in the United States may choose, and are generally permitted to prescribe drugs for uses that are not described in the product's labeling and for uses that differ from those tested in clinical studies and approved by the regulatory authorities, under the FDA's regulations our ability to promote the products is narrowly limited to those indications that are approved by the FDA. "Off-label" uses are common across medical specialties and may constitute an appropriate treatment for some patients in varied circumstances. Regulatory authorities in the United States generally do not regulate the behavior of physicians in their choice of treatments. Regulatory authorities do, however, restrict communications by pharmaceutical companies on the subject of off-label use. Although recent court decisions suggest

that certain off-label promotional activities may be protected under the First Amendment, the scope of such protection is unclear. Moreover, while we promote our products consistent with what we believe to be the approved indication for our drugs, the FDA may disagree. If the FDA determines that our promotional activities fail to comply with the FDA's regulations or guidelines, we may be subject to warnings from, or enforcement action by, these authorities. In addition, our failure to follow FDA rules and guidelines relating to promotion and advertising may cause the FDA to issue warning letters or untitled letters, bring an enforcement action against us, suspend or withdraw an approved product from the market, require a recall or institute fines or civil fines, or could result in disgorgement of money, operating restrictions, injunctions or criminal prosecution, any of which could harm our reputation and our business.

In September 2014, we received a warning letter from the OPDP pertaining to certain promotional aspects of EXPAREL, and in February 2015, agreement was reached with the OPDP on the content and mechanisms for distribution of a Dear

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Healthcare Provider Letter and a corrective journal advertisement, and in July 2015 we received a close-out letter. We have communicated to our sales force and through other promotional channels that EXPAREL is indicated for single-dose administration into the surgical site to produce postsurgical analgesia. However, the FDA might determine that our promotion of EXPAREL fails to comply with the FDA's regulations and guidelines.

In September 2015, we, along with two independent physicians, filed a lawsuit in federal court against the FDA and other governmental defendants seeking to exercise our lawful rights to communicate truthful and non-misleading information about EXPAREL. The complaint outlines our belief that the FDA's warning letter received in September 2014 and regulations restricting our truthful and non-misleading speech about EXPAREL violate the Administrative Procedure Act and the First and Fifth Amendments of the U.S. Constitution. The lawsuit seeks a declaration and injunctive relief to permit us to promote EXPAREL consistent with its approved indication and pivotal studies that supported FDA approval.

We are unable to predict whether such clarifications in promotional activities will have an effect on EXPAREL sales. We can make no assurances that we will not receive FDA warning letters in the future or be subject to other regulatory action. As noted above, any regulatory violation or allegations of a violation may have a material adverse effect on our reputation and business.

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
Not applicable.

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