

THREE ARCH MANAGEMENT III LLC
 Form 4
 February 18, 2011

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
THREE ARCH MANAGEMENT III LLC

2. Issuer Name and Ticker or Trading Symbol
ACELRX PHARMACEUTICALS INC [ACRX]

5. Relationship of Reporting Person(s) to Issuer
 (Check all applicable)

(Last) (First) (Middle)
 3200 ALPINE ROAD,
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)
 02/16/2011

____ Director
 ____ Officer (give title below)
 10% Owner
 ____ Other (specify below)

PORTOLA VALLEY, CA 94028
 (City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 ____ Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | 5. Amount of Securities Beneficially Owned Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Ownership (Instr. 4) | | |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|-----|-------|
| | | | | (A) or (D) | Code | V | Amount | (D) | Price |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

| 1. Title of Derivative Security | 2. Conversion or Exercise | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any | 4. Transaction Code | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Underlying S (Instr. 3 and |
|---------------------------------|---------------------------|--------------------------------------|-----------------------------------|---------------------|--|--|---|
|---------------------------------|---------------------------|--------------------------------------|-----------------------------------|---------------------|--|--|---|

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| (Instr. 3) | Price of Derivative Security | (Month/Day/Year) | (Instr. 8) Code | (Instr. 3, 4, and 5) V (A) (D) | Date Exercisable | Expiration Date | Title | |
|---|------------------------------------|------------------|--------------------|-----------------------------------|---------------------|--------------------|-------------|--------------------------------|
| Series C Convertible Preferred Stock | <u>(7)</u> | 02/16/2011 | C | | 24,130 | <u>(10)</u> | <u>(11)</u> | Common Stock |
| Warrant to purchase Series C Convertible Preferred Stock | <u>(14)</u> | 02/16/2011 | J | 631 <u>(17)</u> | | <u>(15)</u> | <u>(16)</u> | Series C Preferred Stock |
| Warrant to purchase Series C Convertible Preferred Stock | <u>(14)</u> | 02/16/2011 | X | | 631 | <u>(15)</u> | <u>(16)</u> | Series C Preferred Stock |
| Series C Convertible Preferred Stock | <u>(14)</u> | 02/16/2011 | X | 631 | | <u>(10)</u> | <u>(11)</u> | Common Stock |
| Series C Convertible Preferred Stock | \$ 5 | 02/16/2011 | S | | 498 <u>(23)</u> | <u>(10)</u> | <u>(11)</u> | Common Stock |
| Series C Convertible Preferred Stock | <u>(7)</u> | 02/16/2011 | C | | 133 | <u>(10)</u> | <u>(11)</u> | Common Stock |
| Warrant to purchase Series C Convertible Preferred Stock | <u>(14)</u> | 02/16/2011 | J | 11,754 <u>(18)</u> | | <u>(15)</u> | <u>(16)</u> | Series C Preferred Stock |
| Warrant to purchase Series C Convertible Preferred Stock | <u>(14)</u> | 02/16/2011 | X | | 11,754 | <u>(15)</u> | <u>(16)</u> | Series C Preferred Stock |
| | <u>(14)</u> | 02/16/2011 | X | 11,754 | | <u>(10)</u> | <u>(11)</u> | |

| | | | | | | | | |
|---|-------------|------------|---|--------------------------------|-----------------------|-------------|-------------|-----------------|
| Series C Convertible Preferred Stock | | | | | | | | Common Stock |
| Series C Convertible Preferred Stock | \$ 5 | 02/16/2011 | S | | 9,269 ⁽²⁴⁾ | <u>(10)</u> | <u>(11)</u> | Common Stock |
| Series C Convertible Preferred Stock | <u>(7)</u> | 02/16/2011 | C | | 2,485 | <u>(10)</u> | <u>(11)</u> | Common Stock |
| Convertible Promissory Note | <u>(19)</u> | 02/16/2011 | J | \$ 9,966.73 <u>(17)</u> | | <u>(19)</u> | <u>(19)</u> | Common Stock |
| Convertible Promissory Note | <u>(20)</u> | 02/16/2011 | J | \$ 185,385.3 <u>(18)</u> | | <u>(20)</u> | <u>(20)</u> | Common Stock |
| Convertible Promissory Note | <u>(19)</u> | 02/16/2011 | C | | \$ 9,966.73 | <u>(19)</u> | <u>(19)</u> | Common Stock |
| Convertible Promissory Note | <u>(20)</u> | 02/16/2011 | C | | \$ 185,385.3 | <u>(20)</u> | <u>(20)</u> | Common Stock |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---------------|-----------|---------|-------|
| | Director | 10% Owner | Officer | Other |
| THREE ARCH MANAGEMENT III LLC 3200 ALPINE ROAD PORTOLA VALLEY, CA 94028 | | X | | |
| WAN MARK A C/O THREE ARCH PARTNERS 3200 ALPINE RD PORTOLA VALLEY, CA 94028 | X | | | |
| JAEGER WILFRED E C/O THREE ARCH PARTNERS 3200 ALPINE RD PORTOLA VALLEY, CA 94028 | | X | | |
| THREE ARCH PARTNERS III LP | | X | | |
| | | X | | |

THREE ARCH ASSOCIATES III LP
C/O THREE ARCH PARTNERS
3200 ALPINE ROAD
PORTOLA VALLEY, CA 94028

Signatures

/s/ Stephen J. Bonelli,
Attorney-in-fact

02/18/2011

**Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (2) The shares are held by Three Arch Associates III, L.P. The voting and dispositive decisions with respect to the shares held by Three Arch Associates III, L.P., are made by the following Managing Members of its general partner Three Arch Management III, L.L.C.: Mark Wan and Wilfred Jaeger, each of whom disclaims beneficial ownership of such shares.
- (4) The shares are held by Three Arch Partners III, L.P. The voting and dispositive decisions with respect to the shares held by Three Arch Partners III, L.P., are made by the following Managing Members of its general partner Three Arch Management III, L.L.C.: Mark Wan and Wilfred Jaeger, each of whom disclaims beneficial ownership of such shares.
- (7) The shares reflect the automatic conversion of shares of the Issuer's Series C Convertible Preferred Stock into Common Stock on a one-for-one basis upon the closing of the Issuer's initial public offering.
- (10) Immediately convertible into shares of the Issuer's Common Stock.
- (11) These shares have no expiration date.
- (14) The exercise price is \$3.942 per share.
- (15) Immediately exercisable prior to and contingent upon the closing of the Issuer's initial public offering.
- (16) Pursuant to its terms, the warrant was to be terminated at the closing of the Issuer's initial public offering. Holder elected to not exercise the warrants immediately prior to the closing of the Issuer's initial public offering. In the event the Issuer's public offering did not occur, the warrant would have terminated on September 14, 2017, unless earlier terminated in accordance with its terms, in a liquidation or change of control transaction.
- (17) Pursuant to that certain Note and Warrant Transfer Agreement dated February 16, 2011, ACP IV, L.P. transferred (i) a convertible promissory note in the amount of \$10,138.38 including accrued interest and (ii) an associated warrant to purchase preferred stock of the Issuer, exercisable into 631 shares of Series C Convertible Preferred Stock to Three Arch Associates III, L.P., for a nominal consideration, contingent upon the closing of the Issuer's initial public offering.
- (18) Pursuant to that certain Note and Warrant Transfer Agreement dated February 16, 2011, ACP IV, L.P. transferred (i) a convertible promissory note in the amount of \$188,578.05 including accrued interest and (ii) an associated warrant to purchase preferred stock of the Issuer, exercisable into 11,754 shares of Series C Convertible Preferred Stock to Three Arch Partners III, L.P., for a nominal consideration, contingent upon the closing of the Issuer's initial public offering.
- (19) A note with the principal amount plus accrued interest of \$10,138.38 converted automatically upon the closing of the Issuer's initial public offering into shares of Common Stock at a conversion price of \$4.00, which is 80.0% of the per share price of the Common Stock sold in the Issuer's initial public offering.
- (20) A note with the principal amount plus interest of \$188,578.05 converted automatically upon the closing of the Issuer's initial public offering into shares of Common Stock at a conversion price of \$4.00, which is 80.0% of the per share price of the Common Stock sold in the Issuer's initial public offering.
- (23) These shares represent the net exercise of a warrant to purchase Series C Convertible Preferred Stock for an acquisition of 133 shares of Series C Convertible Preferred Stock of the Issuer.
- (24) These shares represent the net exercise of a warrant to purchase Series C Convertible Preferred Stock for an acquisition of 2,485 shares of Series C Convertible Preferred Stock of the Issuer.

Remarks:

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Form 2 of 2.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.