

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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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

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

(City) (State) (Zip)

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 Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)		
			Code	V	Amount	(A) or (D)	Price		
Common Stock	02/16/2011		C		31,357	A	<u>(1)</u> 31,357	I	See Footnote <u>(2)</u>
Common Stock	02/16/2011		C		583,255	A	<u>(3)</u> 583,255	I	See Footnote <u>(4)</u>
Common Stock	02/16/2011		C		25,106	A	<u>(5)</u> 56,463	I	See Footnote <u>(2)</u>
Common Stock	02/16/2011		C		466,990	A	<u>(6)</u> 1,050,245	I	See Footnote

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								(4)
Common Stock	02/16/2011	C	44,702	A	<u>(7)</u>	101,165	I	See Footnote <u>(2)</u>
Common Stock	02/16/2011	C	831,466	A	<u>(7)</u>	1,881,711	I	See Footnote <u>(4)</u>
Common Stock	02/16/2011	C	27,142	A	<u>(8)</u>	128,307	I	See Footnote <u>(2)</u>
Common Stock	02/16/2011	C	504,860	A	<u>(9)</u>	2,386,571	I	See Footnote <u>(4)</u>
Common Stock	02/16/2011	C	1,430	A	<u>(7)</u>	129,737	I	See Footnote <u>(2)</u>
Common Stock	02/16/2011	C	26,615	A	<u>(7)</u>	2,413,186	I	See Footnote <u>(4)</u>
Common Stock	02/16/2011	P	65,806	A	\$ 5	195,543	I	See Footnote <u>(2)</u>
Common Stock	02/16/2011	P	1,223,983	A	\$ 5	3,637,169	I	See Footnote <u>(4)</u>

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

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(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 (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Underlying (Instr. 3 and 4)	
						Date Exercisable	Expiration Date	Title
Series A Convertible Preferred	<u>(1)</u>	02/16/2011		Code V C	(A) 22,959	<u>(10)</u>	<u>(11)</u>	Common Stock

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Stock								
Series A Convertible Preferred Stock	<u>(3)</u>	02/16/2011	C		427,040	<u>(10)</u>	<u>(11)</u>	Common Stock
Series B Convertible Preferred Stock	<u>(5)</u>	02/16/2011	C		16,741	<u>(10)</u>	<u>(11)</u>	Common Stock
Series B Convertible Preferred Stock	<u>(6)</u>	02/16/2011	C		311,384	<u>(10)</u>	<u>(11)</u>	Common Stock
Series C Convertible Preferred Stock	<u>(7)</u>	02/16/2011	C		44,702	<u>(10)</u>	<u>(11)</u>	Common Stock
Series C Convertible Preferred Stock	<u>(7)</u>	02/16/2011	C		831,466	<u>(10)</u>	<u>(11)</u>	Common Stock
Convertible Promissory Note	<u>(12)</u>	02/16/2011	C		\$ 96,767.12	<u>(12)</u>	<u>(12)</u>	Common Stock
Convertible Promissory Note	<u>(13)</u>	02/16/2011	C		\$ 1,799,869.22	<u>(13)</u>	<u>(13)</u>	Common Stock
Warrant to purchase Series C Convertible Preferred Stock	<u>(14)</u>	02/16/2011	X		6,135	<u>(15)</u>	<u>(16)</u>	Series C Preferred Stock
Series C Convertible Preferred Stock	<u>(14)</u>	02/16/2011	X	6,135		<u>(10)</u>	<u>(11)</u>	Common Stock
Series C Convertible Preferred Stock	\$ 5	02/16/2011	S		4,838 <u>(21)</u>	<u>(10)</u>	<u>(11)</u>	Common Stock
Series C Convertible Preferred Stock	<u>(7)</u>	02/16/2011	C		1,297	<u>(10)</u>	<u>(11)</u>	Common Stock

Warrant to purchase Series C Convertible Preferred Stock	(14)	02/16/2011	X		114,123	(15)	(16)	Series C Preferred Stock
Series C Convertible Preferred Stock	(14)	02/16/2011	X	114,123		(10)	(11)	Common Stock
Series C Convertible Preferred Stock	\$ 5	02/16/2011	S		89,993 (22)	(10)	(11)	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		
THREE ARCH ASSOCIATES III LP C/O THREE ARCH PARTNERS 3200 ALPINE ROAD PORTOLA VALLEY, CA 94028		X		

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).
- (1) The shares reflect the automatic conversion of 22,959 shares of the Issuer's Series A Convertible Preferred Stock for 31,357 shares of the Issuer's Common Stock immediately prior to the closing of the Issuer's initial public offering.
- 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.
- (2) The shares reflect the automatic conversion of 427,040 shares of the Issuer's Series A Convertible Preferred Stock for 583,255 shares of the Issuer's Common Stock immediately prior to the closing of the Issuer's initial public offering.
- 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.
- (3) The shares reflect the automatic conversion of 16,741 shares of the Issuer's Series B Convertible Preferred Stock for 25,106 shares of the Issuer's Common Stock immediately prior to the closing of the Issuer's initial public offering.
- (4) The shares reflect the automatic conversion of 311,384 shares of the Issuer's Series B Convertible Preferred Stock for 466,990 shares of the Issuer's Common Stock immediately prior to the closing of the Issuer's initial public offering.
- (5) 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.
- (6) Notes and accrued interest in the aggregate of \$108,572.10 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.
- (7) Notes and accrued interest in the aggregate of \$2,019,445.02 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.
- (8) Immediately convertible into shares of the Issuer's Common Stock.
- (9) These shares have no expiration date.
- A note with the principal amount plus accrued interest of \$98,433.72 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 of 80.0% of the per share price of the Common Stock sold in the Issuer's initial public offering.
- (10) A note with the principal amount plus accrued interest of \$1,830,866.97 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.
- (11) The exercise price is \$3.942 per share.
- (12) Immediately exercisable prior to and contingent upon the closing of the Issuer's initial public offering.
- Pursuant to its terms, the warrant was to be terminated at the closing of the Issuer's initial public offering. Holder elected to net 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.
- (13) These shares represent the net exercise of a warrant to purchase Series C Convertible Preferred Stock for an acquisition of 1,297 shares of Series C Convertible Preferred Stock of the Issuer.
- (14) These shares represent the net exercise of a warrant to purchase Series C Convertible Preferred Stock for an acquisition of 24,130 shares of Series C Convertible Preferred Stock of the Issuer.

Remarks:

Form 1 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.

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