ACELRX PHARMACEUTICALS INC
Form 10-K
March 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-35068

ACELRX PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-2193603**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
351 Galveston Drive	
Redwood City, CA 94063	
(650) 216-3500	
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)	

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 par value	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§-229.405) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2014 (the last business day of the registrant’s most recently completed second fiscal quarter), based upon the last sale price reported on the NASDAQ Global Market on that date, was approximately $318,700,000. The calculation excludes 12,280,685 shares of the registrant’s common stock held by current executive officers, directors and stockholders that the registrant has concluded are affiliates of the registrant. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 25, 2015, the number of outstanding shares of the registrant’s common stock was 43,714,665.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's notice of annual meeting of stockholders and proxy statement to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of December 31, 2014, are incorporated by reference into Part III of this report.

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ACELRX PHARMACEUTICALS, INC.

2014 ANNUAL REPORT ON FORM 10-K

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Unless the context indicates otherwise, the terms "AcelRx," "AcelRx Pharmaceuticals," "we," "us" and "our" refer to AcelRx Pharmaceuticals, Inc.

ACELRX and "ACCELERATE.INNOVATE.ALLEVIATE." are registered trademarks of AcelRx Pharmaceuticals, Inc. Other trademarks of AcelRx Pharmaceuticals, Inc., including ZALVISO™, appearing in this annual report on Form

10-K are the property of AcelRx Pharmaceuticals, Inc. This report also contains trademarks and trade names that are the property of their respective owners.

Forward-Looking Statements

This Annual Report on Form 10-K, or Form 10-K, contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the "safe harbor" created by that section. The forward-looking statements in this Form 10-K are contained principally under "Item 1. Business," "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." In some cases, you can identify forward-looking statements by the following words: "may," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," "c or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. These statements involve risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Form 10-K, we caution you that these statements are based on a combination of facts and factors currently known by us and our projections of the future, about which we cannot be certain. Many important factors affect our ability to achieve our objectives, including:

- our ability to resubmit the Zalviso NDA, including our ability to satisfactorily conduct the additional clinical study requested by the FDA, and any additional studies that may be required by the FDA in order to resubmit the Zalviso NDA, and the time and resources required to do so;
- our ability to obtain and maintain regulatory approval of Zalviso and other product candidates, and any related restrictions, limitations, and/or warnings in the label of an approved product candidate;
- the success, cost and timing of our product development activities and clinical trials, including an additional clinical study for Zalviso;
- our ability to obtain funding for our operations, including funding necessary for the planned commercialization and manufacturing of Zalviso in the United States and advancement of clinical trials for other product candidates including our planned Phase 3 clinical program for ARX-04;
- the potential achievement of collaboration milestones, including the approval of the Marketing Authorization Application for Zalviso in the European Union and the timing thereof;
- our plans to research, develop and commercialize our product candidates;

- our ability to attract additional collaborators with development, regulatory and commercialization expertise;
- the size and growth potential of the markets for our product candidates, and our ability to serve those markets;
- our liquidity and capital resources;
- our ability to successfully commercialize our product candidates;
- the rate and degree of market acceptance of our product candidates;
- our ability to develop sales and marketing capabilities, whether alone or with potential future collaborators;
- regulatory developments in the United States and foreign countries;
- the performance of our third party suppliers and manufacturers;
- the success of competing therapies that are or become available;
- the loss of key scientific or management personnel;
- the accuracy of our estimates regarding expenses, future revenues, capital requirements and needs for additional financing; and
- our ability to obtain and maintain intellectual property protection for our product candidates.

In addition, you should refer to “Item 1A. Risk Factors” in this Form 10-K for a discussion of these and other important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Form 10-K will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. Also, forward-looking statements represent our estimates and assumptions only as of the date of this Form 10-K. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I

Item 1. Business

Overview

We are a specialty pharmaceutical company focused on the development and commercialization of innovative therapies for the treatment of acute pain. Our lead product candidate is Zalviso™, formerly known as ARX-01. Zalviso is intended for the management of moderate-to-severe acute pain in hospitalized adult patients. Zalviso consists of sufentanil sublingual tablets delivered by the Zalviso System, a needle-free, handheld, patient-administered, pain management system (together, "Zalviso").

On July 25, 2014, the U.S. Food and Drug Administration, or FDA, issued a Complete Response Letter, or CRL, for our New Drug Application, or NDA, for Zalviso. The CRL contains requests for additional information on the Zalviso System to ensure proper use of the device. The requests include submission of data demonstrating a reduction in the incidence of optical system errors, changes to the Instructions for Use for the device to address inadvertent dosing, among other items, and submission of additional data to support the shelf life of the product. In the third quarter of 2014, we held a Type A meeting with the FDA to discuss the Zalviso CRL received in July. During the meeting we discussed the resubmission of the Zalviso NDA and the steps necessary for the resubmission. In advance of resubmitting our Zalviso NDA, we agreed with the FDA to submit protocols for the bench testing and Human Factors, or HF, studies for their review and comment. In addition, the FDA requested in the minutes of the meeting that we provide a risk assessment that analyzes the risks associated with inadvertent dosing and the rationale that bench testing and HF studies are sufficient to address the specific items included in the CRL. We submitted the protocols and this rationale in the fourth quarter of 2014. In January 2015, we received feedback from the FDA on the protocol and the planned analysis of the results of the bench test. No modifications to the conduct of the bench test were necessary; however, in response to the FDA's request, we refined the planned analysis of the bench test results. In February 2015, we received feedback from the FDA on the HF protocols. In this feedback, the FDA confirmed that the HF studies as proposed were acceptable to evaluate the design changes related to inadvertent dispensing of tablets. In March 2015, we received additional correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss and clarify the need for an additional clinical study, and the potential design and objectives of such a study. As a result of this most recent FDA communication and the need for clarity with the FDA, the Zalviso NDA resubmission is on hold. We will provide an update on the timing of the resubmission of the Zalviso NDA after we obtain more information from the FDA. The FDA has precleared certain aspects of our proposed Risk Evaluation and Mitigation Strategy, or REMS, and indicated that they will continue discussion of our proposed REMS after the Zalviso NDA has been resubmitted.

Zalviso

Zalviso is an investigational, pre-programmed, non-invasive system to allow hospital patients with moderate-to-severe acute pain to self-dose with sufentanil sublingual tablets to manage their pain. Zalviso is designed to help address certain problems associated with post-operative intravenous patient-controlled analgesia, by offering:

- **A high therapeutic index opioid:** Zalviso uses sufentanil, an opioid that has a high therapeutic index. The therapeutic index is the ratio of the effective dose versus the lethal dose. In animal studies, the therapeutic index for sufentanil was approximately 100 times larger than fentanyl and 300 times larger than morphine.

- **A non-invasive route of delivery:** Zalviso utilizes a sufentanil tablet which allows for a sublingual (under the tongue) route of delivery. Sufentanil is highly lipophilic which provides for rapid absorption in the fatty cells (or mucosal tissue) found under the tongue, and for rapid transit across the blood-brain barrier to reach the mu-opioid receptors in the brain. The sublingual delivery used by Zalviso provides rapid onset of analgesia. The sublingual delivery system also eliminates the risk of IV-related analgesic gaps and IV complications, such as catheter-related infections. In addition, because patients do not require direct connection to an IV patient-controlled analgesia, or PCA, infusion pump through IV tubing, Zalviso allows for ease of patient mobility.

- **A simple, pre-programmed PCA solution:** Zalviso allows patients to self-dose sufentanil sublingual tablets via a pre-programmed, secure system designed to eliminate the risk of programming errors.

We submitted an NDA for Zalviso in September 2013 and, as mentioned above, the FDA issued a CRL for Zalviso on July 25, 2014. We have conducted additional Human Factors studies and bench testing to address the related issues within the CRL. As mentioned above, in March 2015 we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss the need for an additional clinical study, and the potential design and objectives of such a study.

The 505(b)(2) NDA submission for Zalviso is based on a development program that includes data from seven Phase 1 studies, three Phase 2 clinical trials, and three Phase 3 clinical trials. The Phase 3 trial program included two placebo-controlled efficacy and safety trials and one open-label active comparator trial, in which Zalviso was compared to IV PCA with morphine. To date, the Zalviso safety database includes more than 600 patients. Zalviso successfully achieved the primary efficacy endpoints for each of the Phase 2 and Phase 3 trials. A summary of the Phase 3 trials and results is as follows:

- *Active comparator trial (IAP309)*—in November 2012, we reported top-line data demonstrating that Zalviso met its primary endpoint of non-inferiority in a Phase 3 open-label active comparator trial designed to compare the efficacy and safety of Zalviso (15 mcg/dose, 20 minute lock-out) to IV PCA with morphine (1mg/dose, 6 minute lock-out) for the treatment of moderate-to-severe acute post-operative pain immediately following major abdominal or orthopedic surgery.

- *Double-blind, placebo-controlled, abdominal surgery trial (IAP310)*—in March 2013, we reported top-line data demonstrating that Zalviso met its primary endpoint in a pivotal Phase 3 trial designed to compare the efficacy and safety of Zalviso to placebo in the management of acute post-operative pain after major open abdominal surgery. Adverse events reported in the trial were generally mild or moderate in nature and similar in both placebo and treatment groups. Utilizing a randomized, double-blind, placebo-controlled design, this pivotal Phase 3 trial enrolled 178 adult patients at 13 U.S. sites.

- *Double-blind, placebo-controlled, orthopedic surgery trial (IAP311)*—in May 2013, we reported top-line data demonstrating that Zalviso met its primary endpoint in a pivotal Phase 3 trial designed to compare the efficacy and safety of Zalviso to placebo in the management of acute post-operative pain after major orthopedic surgery. Utilizing a randomized, double-blind, placebo-controlled design, this pivotal Phase 3 trial enrolled 426 adult patients at 34 U.S. sites. Treatment-emergent adverse events were generally mild to moderate in nature and similar for the majority of adverse events between Zalviso and placebo-treated patients, despite the shorter duration of exposure in the placebo-treated patients caused by early termination due to inadequate analgesia.

In December 2013, we announced a commercial collaboration with Grünenthal, covering the territory of the European Union, certain other European countries and Australia for Zalviso for use in the management of moderate-to-severe acute pain within a hospital, hospice, nursing home or other medically supervised setting. We retain all rights in remaining countries, including the United States, Asia and Latin America. The collaboration included a Collaboration and License Agreement, or License Agreement, and a Manufacturing and Supply Agreement, or Supply Agreement.

Under the terms of the License Agreement, we received an upfront cash payment of $30.0 million in December 2013, and in the third quarter of 2014, we received a milestone payment of $5.0 million related to the Marketing Authorization Application, or MAA, submission to the European Medicines Agency, or EMA. We are eligible to receive an additional $15.0 million milestone payment upon the approval of the MAA. If approved, we are eligible to receive approximately $200.0 million in additional milestone payments, based upon successful regulatory and product development efforts ($28.5 million) and net sales target achievements ($171.5 million). Grünenthal will also make tiered royalty, supply and trademark fee payments in the mid-teens up to the mid-twenties percent range, on net sales

of Zalviso in the Grünenthal territory.

Grünenthal will be responsible for all commercial activities for Zalviso, including obtaining and maintaining pharmaceutical product regulatory approval in the Grünenthal territory. We will be responsible for obtaining and maintaining device regulatory approval in the Grünenthal territory and manufacturing and supply of Zalviso to Grünenthal for commercial sales.

In July 2014, Grünenthal filed an MAA with the EMA under the centralized procedure in the European Union, or EU, for Zalviso for the management of moderate-to-severe acute pain in adult patients in a medically-supervised environment. In the fourth quarter of 2014, Grünenthal received 120-day questions from the EMA per the EMA's standard regulatory review process. We have been working with Grünenthal towards the submission of the response to the 120-day questions. Grünenthal is currently working to complete the response and submit it to the EMA by the end of March 2015. Assuming the EMA accepts this filing, we anticipate a Committee for Medicinal Products for Human Use, or CHMP, opinion in the summer of 2015 and a final decision by the EMA in the fall of 2015.

In association with potential commercialization of Zalviso in the European Union, we underwent a Conformite Europeenne approval process for the Zalviso device, more commonly known as a CE Mark approval process. In December 2014, we received CE Mark approval, which permits the commercial use of the Zalviso device in the European Union. However, as a drug-device combination product, Zalviso will not be utilized commercially unless and until the EMA approves the Zalviso MAA. In connection with the CE Mark approval, we were also granted International Standards Organization, or ISO, 13485:2003 certification of our quality management system in November 2014. This is an internationally recognized quality standard for medical devices issued by our notified body, the British Standards Institution, or BSI.

ISO 13485:2003 certification recognizes that consistent quality policies and procedures are in place for the development, design and manufacturing of medical devices. The certification indicates that we have successfully implemented a quality system that conforms to ISO 13485 standards for medical devices. Certification to this standard is one of the key regulatory requirements for a CE Mark in the European Union as well as to meet equivalent requirements in other international markets. The certification applies to the Redwood City, California location which designs, manufactures and distributes finished medical devices.

ARX-04

We are also developing a Sufentanil Sublingual Single-Dose Tablet, or ARX-04, for the treatment of moderate-to-severe acute pain to be administered by a healthcare professional to a patient in settings of acute pain, such as in the emergency room, hospital floor, ambulatory care environment, or on the battlefield. In December 2013, we completed an End-of-Phase 2 Meeting with the FDA to identify a Phase 3 program pathway forward for evaluation of ARX-04. We plan to initiate a pivotal Phase 3 trial for ARX-04 in patients with post-operative pain following abdominal surgery by the end of March 2015. Pending completion of enrollment, we anticipate top-line data from this study in the fourth quarter of 2015.

We have also been notified by the Department of Defense, or DoD, that they are preparing a contract to provide partial funding to support further development of ARX-04. We are currently engaged in the contracting process with the DoD to determine the nature, scope, amount and timing of the contract.

Phase 3 Program

- In June 2014, we completed a pharmacokinetic study in support of the ARX-04 development program. In this study of healthy volunteers, it was shown that two sublingual administrations of a Zalviso 15mcg sufentanil sublingual tablet dosed 20 minutes apart were comparable, in terms of area under the plasma concentration time curve, or AUC, exposure and peak plasma concentration, to one sublingual administration of an ARX-04 30mcg sufentanil sublingual tablet. We have proposed the inclusion of approximately 300 patients from the Zalviso clinical program in the ARX-04 safety database to the FDA and we have designed the two Phase 3 ARX-04 trials accordingly. The ARX-04 safety database required by the FDA is 500 patients. We have confirmation from FDA that some of the Zalviso patients can be included in the overall ARX-04 safety database; however, further discussion is needed to determine the exact number of such patients that can be used towards achieving the 500 patient minimum total safety exposure number required for ARX-04. Based on an ongoing pharmacokinetic analysis, we may need to increase enrollment in our planned Phase 3 clinical trial program to meet the FDA's requested exposure requirements to ARX-04.

- We plan to initiate a Phase 3 clinical trial, a double-blind, placebo-controlled efficacy and safety study of patients with post-operative pain following abdominal surgery by the end of March 2015. We expect top-line data from this trial in the fourth quarter of 2015. Approximately 160 patients are planned to be enrolled in this study.

- In the first half of 2015, contingent on DoD funding, we plan to initiate our second planned Phase 3 clinical trial, an open-label safety study of patients who present to the emergency room with moderate-to-severe pain due to trauma or injury. We expect top-line data from this trial in the second half of 2015. Approximately 40 patients are planned to be enrolled in this study. Timing of this trial is currently pending finalization of the DoD contract. Should we experience delays in such contract negotiations, we may elect to delay this Phase 3 trial beyond the first half of 2015.

Phase 2 Clinical Study Results

In April 2013, we reported top-line data showing that the primary endpoint was achieved in a placebo-controlled, dose-finding, Phase 2 clinical trial of ARX-04 for acute pain. This trial randomized 101 patients following bunionectomy surgery in a 2:2:1 ratio to 30 mcg sufentanil sublingual tablet, 20 mcg sufentanil sublingual tablet, or placebo treatment arms. Ninety-one percent of patients entering the trial completed the 12-hour trial period.

Results demonstrated that patients receiving 30 mcg sufentanil sublingual tablet doses, administered by a healthcare professional, no more frequently than once per hour, had significantly greater pain reduction as measured by Summed Pain Intensity Difference to baseline during the 12-hour trial period (SPID-12) than placebo-treated patients (p=0.003).

Adverse events, or AEs, reported in the trial were generally mild-to-moderate in nature, with two serious adverse events, or SAEs, of post-surgical infection reported, both of which were determined by the investigator to be unrelated to trial drug.

Research and development of ARX-04, including the Phase 2 trial and pre-Phase 3 development, was funded by a $5.6 million grant from the U.S. Army Medical Research and Materiel Command, or USAMRMC. As of December 31, 2013, we had recognized the full amount of the grant of $5.6 million.

ARX-02 and ARX-03

In addition to ARX-04, our product candidate pipeline consists of two other sufentanil-based sublingual product candidates. The Sufentanil Sublingual Tablet Breakthrough Pain, or BTP, Management System, or ARX-02, is a pain management system for the treatment of cancer patients who suffer from BTP. The Sufentanil/Triazolam Sublingual Tablet, or ARX-03, is a single, fixed-dose, combination drug product designed to provide mild sedation, anxiety reduction and pain relief for patients undergoing painful procedures in a physician’s office. We have successfully completed Phase 2 clinical trials for ARX-02 and ARX-03. Future development of ARX-02 and ARX-03 is contingent on funding from a corporate partnership or other external funding source.

Sufentanil Sublingual Tablets

Sufentanil, a high therapeutic index opioid, which has no active metabolites, is 5 to 10 times more potent than fentanyl and is used intravenously as a primary anesthetic to produce balanced general anesthesia for surgery, and for epidural administration during labor and delivery. Sufentanil has many pharmacological advantages over other opioids. Published studies demonstrate that sufentanil produces significantly less respiratory depressive effects relative to its analgesic effects compared to other opioids, including morphine, alfentanil and fentanyl. These third party clinical results correlate well with preclinical trials demonstrating sufentanil's high therapeutic index, or the ratio of the toxic dose to the therapeutic dose of a drug, used as a measure of the relative safety of the drug for a particular treatment. Accordingly, we believe that sufentanil can be developed to provide an effective and well-tolerated treatment for acute pain. The following table illustrates the difference between the therapeutic index of different opioids.

Opioid	**Therapeutic Index**
Meperidine	5
Methadone	12
Morphine	71
Hydromorphone	232
Fentanyl	277
Sufentanil	26,716

In addition, the pharmaceutical attributes of sufentanil, including lipid solubility and ionization, result in rapid cell membrane penetration and onset of action, which we believe make sufentanil an optimal opioid for the treatment of acute pain.

Although the analgesic efficacy and safety of sufentanil have been well established, the product's use has been historically limited due to its short duration of action when delivered intravenously. Sublingual delivery of sufentanil avoids the high peak plasma levels and short duration of action of IV administration.

Our portfolio of product candidates leverages the above mentioned advantages of sufentanil delivered via the sublingual route. We believe our non-invasive, proprietary sufentanil tablet sublingual dosage form potentially overcomes many of the limitations of current treatment options available for acute pain.

None of our product candidates have been approved by the United States Food and Drug Administration, or FDA. We have not generated any revenue from the sale of any of our product candidates.

Sublingual Delivery of Sufentanil: Summary of Phase 1 Clinical Studies Results

We have completed seven Phase 1 studies with our proprietary sufentanil sublingual tablets to support our four product candidates under development. These studies demonstrated desirable and consistent pharmacokinetic, or PK, parameters, including:

- relatively high bioavailability via the oral mucosa and very low gastrointestinal, or GI, bioavailability;
- prolonged plasma levels relative to IV delivery;
- PK parameters proportional to dose across a wide range of doses (2.5 mcg to 80 mcg);
- lower peak plasma concentration, or Cmax, than IV delivery;
- time to maximum plasma concentrations, or Tmax, range from 20 to 120 minutes;
- while clearance increased in younger patients and heavier patients, clearance was not affected by race, sex, renal or hepatic parameters or concomitant CYP3A4 substrates;
- slightly increased Cmax and prolonged half-life with concomitant administration of the CYP3A4 inhibitor ketoconazole;
- lack of drug accumulation with repeat-dosing and achievement of steady-state plasma concentrations after the 13th dose (with 20 minutes between dosings);
- relatively low patient to patient variability in Tmax and Cmax; and
- repeat dosing PK that supports a 20-minute minimum re-dosing interval.

The chart below illustrates the PK profile of sufentanil sublingual tablets compared to IV delivery of sufentanil from one of our completed Phase 1 PK studies.

In summary, we have demonstrated that sublingual delivery of sufentanil avoids the high peak plasma levels and short duration of action of IV administration, potentially enabling broader use of sufentanil. Our proprietary sufentanil sublingual tablet dosage form is a very small disc-shaped tablet with a bioadhesive excipient, or inactive ingredient, which enables the tablet to adhere to mucosal tissues. When placed under the tongue, the sufentanil sublingual tablet imbibes saliva, adhering it to the sublingual tissues and forming a hydrogel patch. Sufentanil, from the sublingual tablet, rapidly deposits into the fatty tissues under the tongue. The drug then absorbs into the plasma over several hours at roughly the same rate as it is being redistributed and/or cleared from the plasma resulting in a plateau plasma concentration from approximately 20 to 120 minutes. The sufentanil sublingual tablet fully disintegrates within 5-10 minutes. The small size of the sufentanil sublingual tablet, pictured above, is designed to minimize the saliva response and amount of sufentanil swallowed, resulting in high oral transmucosal uptake, whereby a majority of the drug is absorbed via the oral tissues ultimately into the bloodstream, and thereby provides consistent pharmacokinetics.

Our Product Candidates

The following table summarizes key information about our existing product candidates.

Product Candidate	Description	Target Indication	Status
Zalviso	Sufentanil Sublingual Tablet System	Moderate-to-severe acute pain in the hospital setting	NDA submitted to the FDA in September 2013, CRL received July 25, 2014. In March 2015, we received correspondence from the FDA stating that an additional clinical study is needed. We intend to meet with the FDA to discuss and clarify the need for an additional clinical study, and the potential design and objectives of such a study. Timing of the NDA resubmission is to be clarified after the FDA meeting.
			MAA submitted to EMA in July 2014. Assuming the EMA accepts this filing, we anticipate a CHMP opinion in the summer of 2015 and a final decision by the EMA in the fall of 2015.
ARX-04	Sufentanil Sublingual Single-Dose Tablet	Moderate-to-severe acute pain	In April 2013, we reported that a Phase 2 trial of ARX-04 in patients after bunionectomy surgery achieved its primary endpoint. The FDA agreed that this was a well-controlled study and could be used as a pivotal study.
			We plan to initiate a Phase 3 clinical trial that will evaluate the efficacy and safety of ARX-04 vs. placebo for the treatment of moderate-to-severe acute pain following ambulatory abdominal surgery by the end of March 2015, with top-line data anticipated in the fourth quarter of 2015, pending completion of enrollment. This trial was designed as the second of two well-controlled studies required for potential NDA filing for ARX-04, the first was the bunionectomy Phase 2 study.

			We plan to initiate our second planned Phase 3 clinical trial, an open-label safety study of patients who present to the emergency room with moderate-to-severe pain due to trauma or injury in the first half of 2015, with top-line data anticipated in the second half of 2015, contingent on DoD funding. This study is not required to satisfy the regulatory requirements for ARX-04. Timing of this trial is currently pending finalization of the DoD contract. Should we have delays in such contract negotiations we may elect to delay this Phase 3 trial beyond the first half of 2015.
ARX-02	Sufentanil Sublingual Tablet Breakthrough Pain, or BTP, Management System	Cancer breakthrough pain	Phase 2 clinical trial and End of Phase 2 meeting completed. Future development contingent upon identification of corporate partnership resources.
ARX-03	Sufentanil/Triazolam Sublingual Tablet	Mild sedation and pain relief during painful procedures in a physician’s office	Phase 2 clinical trial and End of Phase 2 meeting completed. Future development contingent upon identification of corporate partnership resources.

Zalviso— Sufentanil Sublingual Tablet System

The Market Opportunity for Zalviso

This product candidate has not been approved by the FDA. We have not generated any revenue from the sale of any of our product candidates.

According to the 2014 Decision Resources Acute Pain Report, or 2014 DR Report, the acute pain market (represented by treatments for post-operative pain, acute musculoskeletal pain and cancer breakthrough pain) in the United States, Europe and Japan realized 2013 revenues of $12.7 billion, and is expected to reach approximately $13.3 billion by 2023. Opioid analgesic use dominates the management of acute pain, representing 44% of the 2013 market, and is projected to grow to 46% of the 2023 market. Post-operative acute pain treatment in the United States is projected to grow significantly in the 2013 to 2023 period, from management of 13.8 million procedures in 2011 to 16.0 million procedures in 2023, a 1.5% CAGR. Despite its size, this market remains underserved. Studies report that up to 75% of patients experience inadequate pain relief after surgery. Inadequate pain relief can lead to decreased mobility, which increases the risks of other medical complications, including deep vein thrombosis and partial lung collapse, and can result in extended hospital stays. Additionally, based on an analysis of data published in 2008 from the World Health Organization, we estimate that there are approximately 27 million surgical procedures annually in other moderate-to-high per capita healthcare expenditure nations in which patients experience moderate-to-severe pain.

In the United States, we estimate that approximately one third of all procedures conducted are orthopedic in nature, one third are gastrointestinal, obstetric or gynecologic, and the remaining third are a mix of spinal, cardiothoracic and other procedures. Commissioned market research targeting surgeons and anesthesiologists has identified a consistent positive response to the attributes of Zalviso and indicates an interest in using Zalviso in at least 75% of their eligible patients. Additional market research indicated that physicians expressed interest in using Zalviso for patients who stay in the hospital for less than 24 hours and are not traditionally treated with IV PCA. Regardless of size or affiliation of hospitals, the majority of Pharmacy and Therapeutics, or P&T, committees we surveyed were likely to review and approve Zalviso, subject to demonstration of satisfactory pharmacoeconomic value.

How Zalviso Addresses the Unmet Medical Need in Moderate-To-Severe Acute Pain Management in a Hospital Setting

Hospitalized patients in moderate-to-severe acute pain could significantly benefit from the following items:

- more rapid onset of analgesia;

- fewer medication errors, especially relating to the use of opioids;
- fewer side effects, including infection and bleeding risks due to invasive routes of delivery;
- enhanced ability for patients to ambulate after surgery and avoid falls; and
- patient control over their pain medication which has been shown to increase patient satisfaction.

For example, epidural catheters delivering local anesthetic are invasive and have a significant risk of lower extremity weakness and tethering the patient to a pump attached to an IV pole, creating multiple mobility impediments and fall risks; nerve blocks of the lower extremities (e.g., femoral nerve blocks) are also invasive and create weakness and fall risks; oral multimodal analgesia is not patient-controlled, is nurse-intensive and suffers from slow onset of action. While IV PCA does allow patient control over their pain medication, it suffers from the following:

- side effects associated with the most commonly used opioid, morphine, and its active metabolites;
- infection risk, analgesic gaps and decreased mobility associated with the invasive nature of IV delivery; and
- medication errors, which in some instances may be fatal, due to the complexity of IV PCA pumps, many of which arise from programming errors.

In our clinical studies, Zalviso has demonstrated the following attributes:

- a rapid onset of effect in comparison to intravenous delivery of morphine, and an ability to control pain as a monotherapy after moderate to severely painful surgeries such as knee replacement or colectomies;
- an ability for young and old patients alike to use Zalviso;
- a low rate of severe adverse event experiences;
- a rate of adverse events that is similar to a placebo-treated patient population, with the exception of opioid induced itching;
- a high level of Patient Satisfaction as a result of Zalviso usage under patient control to manage pain after surgery over 48 to 72 hours; and
- a high Nurse Ease of Care rating for ease of set-up and use of Zalviso by the health care professional.

According to published literature, the estimated annual error rate is 407 errors per 10,000 people treated with IV PCA in the United States. Published analysis of MEDMARX from 2000 to 2005 reveals that IV PCA errors represent a four-fold higher relative risk of harm compared to all other medication errors. The most recent published analysis of the FDA MAUDE database reports that 5% of IV PCA operator errors reported during a two-year index period, from 2002 to 2003, resulted in patient deaths. Approximately 56,000 adverse events were reported to the FDA between 2005 and 2009, prompting 70 Class II recalls of infusion pump devices that could cause temporary or reversible adverse effects and 14 Class I recalls of infusion pump devices that could cause serious injury or death. These issues with infusion pumps have resulted in the issuance of new draft guidance by the FDA, significantly increasing the data required to be submitted by IV PCA pump manufacturers to address safety problems.

Zalviso has the potential to address many of the key disadvantages of IV PCA, including:

- eliminating the risk of IV PCA related infections, reducing analgesic gaps and enhancing mobility; and
- eliminating the risk of programming errors.

We believe that Zalviso provides a favorable safety, efficacy and tolerability profile, potentially enabling Zalviso to become a new standard of care for moderate to severe acute pain control via patient-controlled analgesia.

Zalviso Description

The benefits of Zalviso are the result of combining the following three elements:

- sufentanil, a high therapeutic index opioid;
- Sufentanil sublingual tablets, our proprietary, non-invasive sublingual dosage form; and
- our novel, pre-programmed, handheld PCA device that enables simple patient-controlled delivery of sufentanil sublingual tablets in the hospital setting and eliminates the risk of programming errors.

Zalviso allows patients to self-administer sufentanil sublingual tablets as needed to manage their moderate-to-severe acute pain in the hospital setting, and provides the record-keeping attributes of a conventional IV PCA pump while avoiding some of the key issues, such as programming errors, associated with conventional IV PCA use.

Zalviso utilizes sufentanil, which has one of the highest therapeutic indices of all commercially available opioids, making it an attractive candidate for the management of post-operative pain. Formulated in our proprietary sublingual tablet dosage form, sufentanil provides for relatively high bioavailability, with lower peak drug levels and a longer duration of action compared to IV delivery.

The Zalviso System consists of the following components: a disposable dispenser tip (Figure A); a disposable dispenser cap (Figure B); an adhesive thumb tag (Figure C); a cartridge of 40 sufentanil sublingual 15 mcg tablets (approximately a two-day supply) in a disposable radio frequency identification and bar-coded cartridge (Figure D); a reusable, rechargeable handheld controller (as pictured, nurse-side view) (Figure E); a tether (Figure F); and an authorized access card (Figure G).

This product candidate has not been approved by the FDA. We have not generated any revenue

from the sale of any of our product candidates.

Drugs are classified or scheduled by the Drug Enforcement Agency, or DEA, according to their potential for abuse and addiction. Sufentanil is scheduled as a class II opioid. Scheduled drugs, when they are under patient control in a hospital setting, must be secured and have adequate dose access control and tracking mechanisms. Our novel handheld PCA device has the following safety features:

- an authorized access card, which is a wireless system access key for the healthcare professional;
- a wireless, electronic, adhesive thumb tag that acts as a single-patient identification key;
- pre-programmed 20-minute lock-out to avoid overdosing;
- tablet singulation, or dispensing, motion that eliminates runaway motor delivery risk;
- a security tether that is designed to prevent theft and misuse; and
- fully automated inventory record of sufentanil sublingual tablet usage.

To set up Zalviso, the nurse or healthcare professional turns on the controller and follows the simple step-by-step instructions on the color graphical user interface screen described below:

- retrieve the sufentanil sublingual tablet cartridge from secure drug storage;
- lock the cartridge and dispenser into the controller; and
- set up the secure patient access system, which is comprised of a security tether and a wireless, electronic, adhesive thumb tag that acts as a single-patient identification key.

To use Zalviso, the patient would:

- confirm that the green indicator light is illuminated, meaning the device is available to dose;
- place dispenser tip under tongue and push the large button on the controller with the thumb to which the thumb tag has been applied, which in turn dispenses a single sufentanil sublingual tablet;
- remove the device from mouth upon hearing a tone confirming delivery of the sufentanil sublingual tablet; and
- see the blue indicator light illuminate, indicating no new dose can be dispensed for the next 20 minutes.

Zalviso—Development Status

We submitted an NDA for Zalviso in September 2013 and, as mentioned above, the FDA issued a CRL for Zalviso on July 25, 2014. In March 2015, we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss and clarify the need for an additional clinical study, and the potential design and objectives of such a study.

The 505(b)(2) NDA submission for Zalviso is based on a development program that includes data from seven Phase 1 studies, three Phase 2 clinical trials, and three Phase 3 clinical trials. The Phase 3 trial program included two placebo-controlled efficacy and safety trials and one open-label active comparator trial, in which Zalviso was compared to IV PCA with morphine. To date, the Zalviso safety database includes more than 600 patients. Zalviso successfully achieved the primary efficacy endpoints for each of the Phase 2 and Phase 3 trials.

Zalviso—Clinical Program

Summary

Our Phase 3 program for Zalviso consisted of three Phase 3 clinical trials. We have reported positive top-line results from each of the three clinical trials. Prior to our Phase 3 program, we completed three successful Phase 2 clinical trials of sufentanil sublingual tablets in the post-operative setting. These Phase 2 clinical trials demonstrated analgesic efficacy over a 12-hour study period, a low adverse event profile and excellent device functionality. During our End of Phase 2 meeting with the FDA, the FDA stated that the demonstration of efficacy versus placebo in two Phase 3 clinical trials with a total safety database of at least 600 patients exposed to the active drug should suffice to support an NDA. We designed our Phase 3 clinical trials based on the feedback from the FDA.

Phase 3 Clinical Trials for Zalviso

Active comparator trial (IAP309)

In November 2012, we reported top-line data showing that Zalviso had met its primary endpoint of non-inferiority in the Phase 3 open-label active comparator trial designed to compare the efficacy and safety of Zalviso (15 mcg/dose) to IV PCA with morphine (1mg/dose) for the treatment of moderate-to-severe acute post-operative pain. Utilizing a randomized, open-label, parallel group design, this trial enrolled 359 adult patients at 26 U.S. sites for the treatment of pain immediately following open-abdominal or major orthopedic surgery (hip and knee replacement). Patients were randomized 1:1 to treatment with Zalviso or IV PCA morphine and were treated for a minimum of 48 hours and up to 72 hours.

Regarding disposition and safety assessments, throughout the course of the trial, 7.3% of patients treated with Zalviso dropped out of the trial prematurely due to lack of efficacy compared to 8.9% of patients treated with IV PCA

morphine. Additionally, 7.3% of the patients treated with Zalviso dropped out of the trial due to an adverse event compared to 10.0% of the IV PCA morphine patients. We observed 13 patients who experienced serious adverse events, or SAEs, in the trial, of whom three patients experienced serious adverse events assessed as possibly or probably related to the trial drug, one was related to Zalviso and two were related to IV PCA morphine. Overall the adverse events were similar between the two groups, however, continuous oxygen saturation monitoring demonstrated a lower percentage of patients with desaturations below 95% in the Zalviso group compared to IV PCA morphine ($p = 0.028$).

The primary endpoint for the trial was a comparison of the patient's response using the Patient Global Assessment, or PGA, of method of pain control over the 48-hour trial period between the patients treated with Zalviso and IV PCA morphine. The PGA uses a 4-point scale of poor, fair, good or excellent to rate each method of pain control. The primary endpoint was determined by measuring the proportion of patients who responded "good" or "excellent" using the PGA to rate their method of pain control. An overview of the top-line primary endpoint results of this Phase 3 clinical trial demonstrates that:

- Zalviso was non-inferior ($p<0.001$) to IV PCA morphine for the primary endpoint of PGA comparison over the 48-hour study period as determined by the combined percentage of patients with PGA ratings of "good" or "excellent" (78.5% vs. 65.6%, respectively). A p-value is a probability with a value ranging from 0 to 1, which indicates the likelihood that a clinical trial is different between treatment and control groups. P-values below 0.05 mean that there is a 95% or greater chance that there is a true difference between the groups, and are typically referred to as statistically significant.

- The assessment of non-inferiority was based on a lower limit of—15% for the 95% confidence interval, or CI, around the difference between these percentages. Because the 95% CI was +3.7% to +22.1% for the 48 hour PGA and therefore did not cross the zero difference line, a secondary comparison of the primary endpoint, specifically a statistical analysis of superiority could be performed. In this trial, Zalviso was statistically superior to IV PCA morphine for the PGA endpoint ($p=0.007$). Statistically superior PGA was also seen at the 24 hour and 72 hour time points.

A number of secondary endpoints were also evaluated, including pain intensity difference, or PID, and pain relief at each evaluation time point, comparison of individual PGA ratings, a Healthcare Professional Global Assessment, or HPGA, of method of pain control, dropouts from the trial due to inadequate analgesia and adverse events, and Patient and Nurse Ease of Care Questionnaires using a validated questionnaire methodology specifically to evaluate PCA systems.

Zalviso had a significantly more rapid onset of action based on both PID and pain relief scores from 1 to 4 hours after initiation of dosing compared to IV PCA morphine (PID: $p \leq 0.001$ for 1 and 2 hours and $p = 0.002$ at 4 hours; pain relief: $p = 0.003$ at 1 hour and $p < 0.001$ at 2 and 4 hours). Zalviso achieved a PGA rating of "excellent" in 42.9% of treated patients, compared to 30.6% for IV PCA with morphine, with a p-value of 0.016.

The Healthcare Professional Global Assessment, or HPGA, was measured at 24, 48 and 72 hours, and produced similar results to the Patient Global Assessment. HPGA ratings of "good" or "excellent" at 48 hours were 81.4% for Zalviso compared to 70.0% for IV PCA morphine. An assessment of non-inferiority was conducted and demonstrated that Zalviso was non-inferior to IV PCA morphine ($p < 0.001$) in the trial. Because the 95% CI was +2.6% to +20.2% for the 48 hour HPGA and therefore didn't cross the zero difference line, a statistical analysis for superiority could be performed, which demonstrated that for this trial, Zalviso was statistically superior to IV PCA morphine for the HPGA endpoint at 48 hours ($p=0.012$). Statistically superior HPGA was also seen at the 24 hour and 72 hour time points.

The Patient Ease of Care Questionnaire, or Patient Questionnaire, asked patients to respond to 21 questions regarding aspects of analgesia and PCA systems using a zero to five rating scale, including statements such as, but not limited to, "pain woke me up from my sleep," "the device was easy to use," and "the device interfered with my ability to get out of bed and walk around." Answers to the Patient Questionnaire were combined for an Overall Patient Ease of Care score. These Patient Questionnaire statements were also grouped into six validated subscales, such as "comfort with device," "impact on movement," and "knowledge and understanding." Patients were also asked in this Patient Questionnaire to rate their Overall Satisfaction with the level of pain control and with the way in which the medication was administered during the trial.

The Nurse Ease of Care Questionnaire, or Nurse Questionnaire, asked nurses to respond to 21 questions regarding aspects of analgesia and PCA systems using a zero to five rating scale, including statements regarding the set-up and management of the systems and management of the patients. Answers to the Nurse Questionnaire were combined for an Overall Nurse Ease of Care score. These Nurse Questionnaire statements were grouped into two validated subscales entitled "time-consuming" and "bothersome." Nurses were also asked in this Nurse Questionnaire to rate their Overall Satisfaction based on the level of pain control and with their overall satisfaction of the system.

An overview of results of the Patient and Nurse Questionnaires results includes:

- Patients in the trial reported that they had significantly greater Overall Satisfaction with Zalviso compared to IV PCA morphine (4.15 vs. 3.84, respectively, out of a 0 to 5 scale, with a p-value equal to 0.004).

- Patients in the trial reported that they had greater Overall Ease of Care with Zalviso compared to IV PCA morphine (4.45 vs. 4.07, respectively, out of a 0 to 5 scale, with a p-value less than 0.001).

- Nurses managing patients in the trial reported they had significantly greater Overall Satisfaction with Zalviso compared to IV PCA morphine (3.92 vs. 3.35, respectively, out of a 0 to 5 scale, with a p-value less than 0.001).

- Nurses managing patients in the trial reported they had greater Overall Ease of Care with Zalviso compared to IV PCA morphine (4.27 vs. 3.82, respectively, out of a 0 to 5 scale, with a p-value equal to 0.017).

As noted above, additional subscale analyses were performed related to the Overall Ease of Care with Zalviso as reported by both nurses and patients. The results, as detailed in the tables below, demonstrate that all Patient Ease of Care subscales were significantly higher for Zalviso than for IV PCA morphine in the trial. For the Nurse Ease of Care subscales, nurses rated Zalviso significantly less bothersome than IV PCA morphine and there was a trend towards Zalviso being less time consuming than IV PCA morphine.

Patient Ease of Care

Subscale (0-5 scale)	**Zalviso**	**IV PCA morphine**	**p Value**
Confidence with Device	4.69	4.51	0.015
Comfort with Device	4.47	4.33	0.041
Impact on Movement	4.73	3.88	<0.001
Dosing Confidence	4.74	4.47	0.003
Pain Control	3.58	3.16	0.004
Knowledge and Understanding	4.47	4.05	<0.001

Nurse Ease of Care

Subscale (0-5 scale)	**Zalviso**	**IV PCA morphine**	**p Value**
Time consuming	0.92	1.24	0.076
Bothersome	0.54	1.09	0.006

Double-blind, placebo-controlled, abdominal surgery trial (IAP310)

In March 2013, we reported top-line data results demonstrating that Zalviso met its primary endpoint in a pivotal Phase 3 trial designed to compare the efficacy and safety of Zalviso to placebo in the management of acute post-operative pain after major open abdominal surgery. Adverse events reported in the trial were generally mild or moderate in nature and similar in both placebo and treatment groups. Utilizing a randomized, double-blind, placebo-controlled design, this pivotal Phase 3 trial enrolled 178 adult patients at 13 U.S. sites for the treatment of acute post-operative pain immediately following major abdominal surgery. Patients were treated for post-operative pain for a minimum of 48 hours, and up to 72 hours. Patients were randomized 2:1, with 119 patients randomized to sufentanil sublingual tablet treatment and 59 to placebo treatment. Both treatments were delivered by the patient, as needed, using Zalviso with a 20-minute lock-out period. Patients in both groups could receive up to 2 mg morphine intravenously per hour as a rescue medication, the primary purpose of this rescue medication being to provide placebo-treated patients access to pain medication to enable them to stay in the trial as long as possible. Pre-rescue pain scores were imputed to minimize the impact of this rescue opioid on efficacy evaluations.

The primary endpoint evaluated pain intensity over the 48-hour study period compared to baseline, or Summed Pain Intensity Difference (SPID-48), in patients following major open abdominal surgery. Patients receiving sufentanil sublingual tablets demonstrated a significantly greater SPID-48 compared to placebo-treated patients during the study period (105.6 and 55.6, respectively; p=0.001).

A number of secondary endpoints were also evaluated, including SPID at 24 hours and 72 hours, PID and pain relief values for each evaluation time point, drop outs from the trial due to inadequate analgesia and adverse events, and Patient Ease of Care Questionnaires using a validated questionnaire methodology specifically to evaluate patient-controlled analgesia systems. A summary of the results for the secondary endpoints is as follows:

- 24 hours and 72 hours after first dose, SPID was significantly greater in the sufentanil sublingual tablet-treated patients than in the placebo-treated patients (p<0.001 and p=0.004, respectively).

- PID and pain relief values separated statistically from placebo as early as 45 minutes (p=0.027 for both).

- A summed pain relief measure over the 48-hour study period, commonly referred to as TOTPAR, was significantly greater for sufentanil sublingual tablet-treated patients than placebo-treated patients (p=0.002)

- Eighty, or 70.2%, of the sufentanil sublingual tablet-treated patients completed the 48-hour study period, compared to 30, or 51.7%, of placebo-treated patients. Reasons for drop-out in the sufentanil sublingual tablet-treated and placebo-treated groups were adverse events (5.3% and 6.9%, respectively), lack of efficacy (16.7% and 31.0%, respectively) and other (7.9% and 10.3%, respectively).

- Only one patient, in the sufentanil sublingual tablet-treated group, experienced a serious adverse event, which was determined to be unrelated to the study drug by the investigator.

- Patients in the trial who were treated with sufentanil sublingual tablets reported an average Overall Ease of Care of 4.39 out of a 0 to 5 scale. In addition, patients in the placebo arm of the trial also reported favorable Overall Ease of Care scores, with an average score of 4.36. These results are comparable to the results from the active comparator trial, which is summarized above.

The chart below illustrates the SPID-48 results from the pivotal Phase 3, double-blind, placebo-controlled, abdominal surgery trial (IAP310).

Double-blind, placebo-controlled, orthopedic surgery trial (IAP311)

In May 2013, we reported top-line data results demonstrating that Zalviso met its primary endpoint in a pivotal Phase 3 trial designed to compare the efficacy and safety of Zalviso to placebo in the management of acute post-operative pain after major orthopedic surgery. Adverse events reported in the study were generally mild or moderate in nature and were similar in both placebo and treatment groups for the majority of adverse events. Utilizing a randomized, double-blind, placebo-controlled design, this pivotal Phase 3 study enrolled 426 adult patients at 34 U.S. sites for treatment of moderate=to-severe acute pain immediately following major orthopedic surgery. Seven patients did not receive study drug, resulting in 419 patients being included in the intent-to-treat (ITT) population. Patients were treated for a minimum of 48 hours, and up to 72 hours. Patients were randomized 3:1, with 315 patients randomized to sufentanil sublingual tablet treatment and 104 to placebo treatment. Both treatments were delivered by the patient, as needed, using the Zalviso System with a 20-minute lock-out period. Patients in both groups could receive up to 2 mg morphine intravenously per hour as a rescue medication, the primary purpose of this rescue medication being to enable placebo-treated patients to stay in the study. Pain scores recorded just prior to the delivery of rescue medication were gathered and imputed forward to minimize the impact of this rescue opioid on efficacy evaluations.

The primary endpoint evaluated pain intensity over the 48-hour study period compared to baseline, or Summed Pain Intensity Difference (SPID-48), in patients following major orthopedic surgery. Patients receiving Zalviso demonstrated a significantly greater SPID-48 compared to placebo-treated patients during the study period (+76.1 and -11.5, respectively; $p < 0.001$). Two hundred fifteen (68.3%) sufentanil sublingual tablet-treated patients completed the 48-hour study period, compared to 43 (41.3%) placebo-treated patients. Primary reasons for drop-out in the sufentanil sublingual tablet- and placebo-treated groups were adverse events (7.0% and 6.7%, respectively) and lack of efficacy (14.3% and 48.1%, respectively).

Secondary endpoint data included PID and pain relief values for each evaluation time point and demonstrated that PID separated from placebo at 1 hour ($p = 0.03$) and pain relief separated at 45 minutes ($p < 0.01$). SPID at 24 and 72 hours was also assessed and was highly significant as illustrated below.

Group	SPID-24	SPID-48	SPID-72
Sufentanil Sublingual Tablet	33.8	76.1	166.2
Placebo	-8.8	-11.5	-2.6
Statistical Comparison	p<0.001	p<0.001	p<0.001

A secondary endpoint focused on Total Pain Relief measured at 48 hours (TOTPAR-48) was significantly higher in the Zalviso-treated patients than in the placebo-treated patients ($p<0.001$). In addition, another secondary endpoint, measurement of Patient Global Assessment with Method of Pain Control at 48 hours (PGA-48) was also highly significant in favor of Zalviso-treated patients ($p<0.001$).

Two patients (one each in the sufentanil sublingual tablet group and placebo group) experienced a serious adverse event considered possibly or probably related to the study drug by the investigator.

Combined related adverse events for the two placebo-controlled pivotal studies (IAP310 and IAP311) compared to placebo are shown below. Only pruritus (itching) was statistically different for Zalviso compared to placebo (p = 0.002).

Adverse Reactions Occurring in ≥ 2% in Either Group

Possibly or Probably Related Adverse Reactions	**ZALVISO n=429**	**Placebo n=162**
At least 2% in either group	**Two Placebo-Controlled Phase 3 Studies**	
Nausea	29.4%	22.2%
Vomiting	8.9%	4.9%
Oxygen Saturation Decreased*	6.1%	2.5%
Pruritus	4.7%	0
Dizziness	4.4%	1.2%
Constipation	3.7%	0.6%
Headache	3.3%	3.7%
Insomnia	3.3%	1.9%
Hypotension	3.0%	1.2%
Confusional state	2.1%	0.6%

*3 patients (0.7%) in the Zalviso group had treatment-emergent respiratory events that required naloxone reversal.

ARX-04—Sufentanil Sublingual Single-Dose Tablet

The Market Opportunity for ARX-04

This product candidate has not been approved by the FDA. We have not

We believe that ARX-04 could be useful in a variety of medically supervised settings, including in the emergency room, for post-operative patients who are transitioning from the operating room to the recovery floor, or who are recovering from either short-stay or ambulatory surgery, and do not require more long-term patient-controlled analgesia, as well as for battlefield casualty treatment, and by

generated any revenue from the sale of any of our product candidates.

paramedics during patient transport. According to the National Emergency Department Sample, or NEDS, there were more than 104 million adult emergency room visits in the United States during 2011, of which it is estimated that more than 48 million were associated with moderate-to-severe acute pain; while in the EU there were more than 91 million adult emergency room visits in the United States during 2011, of which it is estimated that more than 34 million were associated with moderate-to-severe acute pain. Based on the National Survey of Ambulatory Surgery, in 2006, an estimated 27 million adult patients underwent outpatient surgical procedures in the United States, while in the EU, an estimated 12 million adult patients underwent outpatient surgical procedures. Of these, we estimate more than 11 million patients experienced moderate-to-severe pain in the United States, and nearly 3 million patients in the EU experienced moderate-to-severe pain. According to the National Inpatient Sample, in 2011, more than 15 million adult patients in the United States underwent surgical procedures in an inpatient setting, while more than 17 million adult patients underwent surgical procedures in an inpatient setting in the EU. Of these, it is estimated that more than 7 million of these procedures performed in the United States resulted in moderate-to-severe pain, while more than 8 million of these procedures performed in the EU resulted in moderate-to-severe pain.

How ARX-04 Addresses the Unmet Medical Need for Moderate-to-Severe Acute Pain

ARX-04 is a non-invasive, fast-onset sufentanil sublingual tablet product candidate for treatment of patients with moderate-to-severe acute pain. In the emergency room and in ambulatory care environments, patients often do not have immediate IV access available, or maintaining IV access can be an impediment to rapid discharge. Oral pills and liquids generally have slow and erratic onset of analgesia. Even patients with IV access may have undesirable side effects with the commonly used IV opioids morphine and hydromorphone, such as sedation or oxygen desaturation. Moreover, IV dosing results in high peak plasma levels, thereby limiting the opioid dose and requiring frequent redosing intervals to titrate to satisfactory analgesia. Additional treatment options are needed that can safely and rapidly treat acute trauma pain, in both civilian and military settings.

ARX-04 Description

ARX-04 is a non-invasive, fast-onset sufentanil sublingual tablet product candidate for treatment of patients with moderate-to-severe acute pain, in medically supervised settings of trauma or injury, such as the emergency room, or for post-operative patients who are transitioning from the operating room to the recovery floor, or who are recovering from either short-stay or ambulatory surgery, and do not require more long-term, patient-controlled analgesia, as well as for battlefield casualty treatment, and by paramedics during patient transport. ARX-04 features sufentanil, a high therapeutic index opioid, in our proprietary sufentanil sublingual tablet technology that enables rapid sublingual absorption when the tablet is placed under the tongue. As a result, sufentanil sublingual tablets can provide rapid onset of analgesia and display a consistent pharmacokinetic profile due to a high percentage of drug being absorbed sublingually instead of through the gastrointestinal tract.

ARX-04 Clinical Program

Summary

We plan to initiate our first Phase 3 clinical trial for ARX-04 by the end of March 2015. Pending the completion of enrollment in this study, we anticipate top-line results in the fourth quarter of 2015.

In May 2011, we received a $5.6 million grant from the US Army Medical Research and Materiel Command, or USAMRMC, to conduct a Phase 2 dose-finding trial, and to prepare to enter Phase 3. In November 2012, we initiated the Phase 2 dose-finding trial and in April 2013, we announced that the trial achieved its primary endpoint.

As of December 31, 2013, we had recognized the $5.6 million grant in full.

Phase 3 Clinical Program for ARX-04

In December 2013 we completed an End of Phase 2 Meeting with the FDA to identify a Phase 3 program pathway forward for evaluation of ARX-04. Key outcomes from the End of Phase 2 Meeting included:

- Agreement on a 500 subject safety database, 100 patients of whom would be studied with multiple doses of ARX-04;
- Agreement that the bunionectomy Phase 2 study was a well-controlled study and could be used as a pivotal study;
- Agreement that a single additional Phase 3 pivotal efficacy and safety study in a model of visceral pain would be sufficient to support an NDA submission; and
- Agreement that the primary endpoint in the remaining Phase 3 study could be the SPID-12, with secondary endpoints following patients out to 48 hours.

In June 2014, we completed a pharmacokinetic study in support of the ARX-04 development program. In this study of healthy volunteers, it was shown that two sublingual administrations of a Zalviso 15mcg sufentanil sublingual tablet dosed 20 minutes apart were comparable, in terms of AUC exposure and peak plasma concentration, to one sublingual administration of an ARX-04 30mcg sufentanil sublingual tablet. We have proposed the inclusion of approximately 300 patients from the Zalviso clinical program in the ARX-04 safety database to the FDA and we have designed the two Phase 3 ARX-04 trials accordingly. As mentioned above, the ARX-04 safety database required by the FDA is 500 patients. We have confirmation from FDA that some of the Zalviso patients can be included in the overall ARX-04 safety database; however, further discussion is needed to determine the exact number of such patients that can be used towards achieving the 500 patient minimum total safety exposure number required for ARX-04. Based on an ongoing pharmacokinetic analysis, we may need to increase enrollment in our planned Phase 3 clinical trial program to meet the FDA’s requested exposure requirements to ARX-04.

We plan to initiate a Phase 3 clinical trial, a double-blind, placebo-controlled efficacy and safety study of patients with post-operative pain following abdominal surgery, by the end of March 2015. The single Phase 3 pivotal study requested by the FDA, SAP301, is a multi-center, double-blind, placebo-controlled study that will evaluate the efficacy and safety of ARX-04 vs. placebo for the treatment of moderate-to-severe acute pain following ambulatory abdominal surgery. We anticipate that enrollment will take up to nine months. Pending the completion of enrollment in this study, we expect top-line data from this trial in the fourth quarter of 2015. Approximately 160 patients are planned to be enrolled in this study.

We have been notified by the DoD that they are preparing a contract to provide partial funding to support further development of ARX-04. We are engaged in the contracting process with the DoD to determine the nature, scope, amount and timing of the contract. As noted above, we plan to initiate a Phase 3 trial by the end of March 2015 so as to not sustain additional delays in the development of ARX-04 while we continue contract negotiations with the DoD. We believe the DoD can be supportive of key aspects of the continued development of ARX-04 but we do not currently have a timeline by which we may receive funding.

In the first half of 2015, contingent on DoD funding, we plan to initiate our second planned Phase 3 clinical trial, an open-label safety study of patients who present to the emergency room with moderate-to-severe pain due to trauma or injury. We expect top-line data from this trial in the second half of 2015. Approximately 40 patients are planned to be enrolled in this study. Timing of this trial is currently pending finalization of the DoD contract. Should we have delays in such contract negotiations, we may elect to delay this Phase 3 trial beyond the first half of 2015.

Phase 2 Clinical Trial for ARX-04

In April 2013, we announced top-line results demonstrating that a placebo-controlled, dose-finding, Phase 2 trial of our investigational single-dose sufentanil sublingual tablet for acute pain, ARX-04, successfully met its primary endpoint. Results demonstrated that patients receiving 30 mcg sufentanil sublingual tablet doses, administered by a healthcare professional, no more frequently than once per hour, had significantly greater pain reduction as measured by Summed Pain Intensity Difference to baseline during the 12-hour study period (SPID-12) than placebo-treated patients (+6.53 for 30 mcg sufentanil sublingual tablet-treated patients and -7.12 for placebo-treated patients; p=0.003). The 20 mcg sufentanil sublingual tablet-treated patients did not achieve SPID-12 scores that differentiated from placebo. Adverse events reported in the study were generally mild-to-moderate in nature, with two serious adverse events of post-surgical infection reported, both of which were determined by the investigator to be unrelated to study drug. This dose-ranging study randomized 101 patients following bunionectomy surgery in a 2:2:1 ratio to 30 mcg sufentanil sublingual tablet, 20 mcg sufentanil sublingual tablet or placebo treatment arms. The intent-to-treat (ITT) population in this study averaged 42.5 years of age and was evenly balanced for males and females (51%:49%). Ninety-one percent of patients entering the study completed the full 12-hour study period.

A number of secondary endpoints were also achieved, as follows:

For the time-weighted sum of pain relief scores over the 12-hour study period, or TOTPAR12, there was a statistically significant difference in favor of the 30 mcg group over placebo (9.73 vs. 4.37 p = 0.002). Patients treated with the 30 mcg dose of sufentanil sublingual tablet showed a rapid onset of action with a statistically significant beneficial difference in pain relief ($p<0.001$) and pain intensity ($p<0.01$) seen at 30 minutes after dosing compared to placebo. Dosing averaged every 2.4 hours over the duration of the 12-hour study. In addition, patient global assessment of the 30 mcg dose at 12 hours was superior to placebo (p=0.002) with 43.6% vs. 5.0% of the patients responding good or excellent for overall pain control. The 20 mcg dose was not significantly different from placebo for either endpoint.

Two SAEs, both in the 20 mcg-dose group, occurred one week after the study (surgical infections) and were deemed unrelated to study drug. All but two adverse events reported in the study were mild-to-moderate in nature with 58 patients (58%) reporting a total of 135 adverse events. The most frequently reported adverse events for all patients were nausea (30%), vomiting (17%), dizziness (14%) and somnolence (11%). Two patients discontinued treatment, one unrelated to study drug (anxiety/chest pain) and the other probably related to study drug (somnolence/respiratory depression), however both patients recovered without medical intervention.

ARX-02—Sufentanil Sublingual Tablet BTP Management System

The Market Opportunity for ARX-02

This product candidate has not been approved by the FDA. We have not generated any revenue from the sale of any of our product candidates.

According to the American Cancer Society, there were more than 1.5 million new cancer cases in the United States in 2010. It is estimated that over 625,000 of these cases result in patients who experience breakthrough pain. We estimate the prescription volume for oral transmucosal products for the management of cancer breakthrough pain to be 220,000 prescriptions per year. This suggests that less than 10% of cancer patients with cancer breakthrough pain are treated with approved transmucosal breakthrough pain medications. In addition, many physicians use immediate release oral opioids to treat cancer breakthrough pain. We believe that this market is significantly larger than the transmucosal product market. Market research among physicians managing cancer patients indicates that ARX-02 could capture approximately a quarter of the cancer breakthrough pain prescriptions. In this research, ARX-02 was predicted to take share equally from both the immediate release oral products and the transmucosal products.

ARX-02 Description

ARX-02 is a product candidate for the treatment of cancer patients who suffer from breakthrough pain. ARX-02 consists of a magazine containing 30 single dose applicators, or SDAs, loaded into a multiple SDA dispenser, or MSD. Each SDA includes a sufentanil sublingual tablet that a patient can self-administer to his or her sublingual space for oral transmucosal absorption. The MSD:

- protects and dispenses SDAs, one at a time;
- displays a recent dose indicator that is designed to mitigate overdosing;
- has child-resistant, elderly-friendly features; and
- provides electronic date and time stamping of each SDA removal event.

The date and time event log is designed to be retrieved from the MSD by a healthcare professional during an office visit to assist the prescriber in understanding the usage profile of the medication, including diversion or abuse. Overall, our goal is to improve the treatment of cancer breakthrough pain while adding a substantially heightened level of detection and deterrence around prescription opioid use, misuse and abuse. While the initial dispenser for outpatient use is designed for dispensing sufentanil sublingual tablets for cancer breakthrough pain events, we believe

this concept could be adapted into developing dispensers for other scheduled drugs in the future.

ARX-02 Clinical Program Overview

We have completed a successful Phase 2 clinical trial of ARX-02. The primary endpoint in this trial was achieved and demonstrated that the time-weighted summed pain intensity difference over 30 minutes, or SPID-30, for sufentanil sublingual tablet-treated episodes was greater than placebo-treated episodes ($p<0.001$). In addition, pain intensity and pain relief were included as secondary endpoints. Lower scores for pain intensity were reported at each evaluation time point for sufentanil sublingual tablet-treated episodes compared to placebo-treated episodes ($p=0.027$ at 15 minutes and $p<0.001$ at all other time points). Time reported time-weighted total pain relief, or TOTPAR, was greater at all time points for sufentanil sublingual tablet-treated episodes compared to placebo-treated episodes ($p=0.049$ and $p=0.009$ for the 10 and 15 minute time points, respectively, and $p=<0.001$ for the remaining time points). The trial also demonstrated a low adverse event profile.

We held an End of Phase 2 meeting with the FDA in July 2010. The FDA stated that the demonstration of efficacy versus placebo in a single Phase 3 clinical trial with a total safety database of 300 to 500 patients exposed to active drug, with at least 100 patients treated for a minimum of three months, may support an indication for the treatment of cancer breakthrough pain with underlying chronic pain.

Further development of the ARX-02 program is contingent on identification of corporate partnership resources.

ARX-03—Sufentanil/Triazolam Sublingual Tablet

The Market Opportunity for ARX-03

This product candidate has not been approved by the FDA. We have not generated any revenue from the sale of any of our product candidates.

Each year in the United States, more than 100 million procedures take place in a physician's office that are known to be anxiety-inducing and painful, according to commissioned market research data that was completed in 2010. These include diagnostic procedures such as breast and prostate biopsies, cosmetic procedures such as liposuction and dermal abrasions, interventional radiology procedures, and therapeutic procedures such as vasectomies and endometrial ablation procedures. IV sedative medications are typically not offered to these patients because of the high cost of the specialized personnel and monitoring equipment. Despite the high potential for pain and anxiety, most patients currently undergo these procedures with only a local anesthetic, resulting in unnecessary procedure discomfort. We believe there is significant opportunity for a fast-acting, effective and safe product that can provide mild levels of sedation, anxiety reduction and analgesia for painful procedures conducted in a physician's office without the need for specialized personnel to monitor the patient.

ARX-03 Description

ARX-03 Sufentanil/Triazolam Sublingual Tablet is a single, fixed-dose sublingual product candidate designed to be administered by a healthcare professional prior to a painful procedure in a physician's office. An important advantage of sufentanil and triazolam over other drugs in their classes is their rapid uptake from the sublingual mucosa. Our Phase 2 clinical data showed that administering ARX-03 via sublingual route prior to a procedure results in a rapid onset of mild sedation and reduction in anxiety in 15 to 30 minutes. Sufentanil and triazolam have short half-lives compared to many other agents in the same class of compounds, enabling patients treated with ARX-03 to be discharged immediately following completion of the procedure. The sublingual route of administration avoids the high plasma concentrations associated with IV delivery, thereby obviating the need for specialized personnel and extensive monitoring.

ARX-03 Clinical Program Overview

We have completed a successful Phase 2 clinical trial of ARX-03 demonstrating rapid onset of mild sedation and anxiety reduction, with a low adverse event profile during an abdominal liposuction procedure. In addition, we participated in an End of Phase 2 meeting with the FDA in May 2010 to discuss the Phase 3 clinical program and requirements for an NDA submission. Based on these discussions, two four-arm factorial Phase 3 clinical trials will be required with a minimum of 700 patients exposed to active drug.

Further development of the ARX-03 program is contingent on identification of corporate partnership resources.

Other Potential Applications for Our Sublingual Tablet Technology

We believe that as a platform technology, the Sublingual Tablet, either as a standalone dosage form or in conjunction with various forms of dispensing mechanisms, has the potential to enable other product candidates utilizing a number of additional compounds to be delivered sublingually to the oral mucosa. There are numerous compounds used for the treatment of pain as well as other therapeutic indications which are dosed in microgram quantities and possess characteristics that we believe make them potential candidates for sublingual delivery via the Sublingual Tablet.

Our Strategy

Our strategy is to develop and commercialize a portfolio of sufentanil sublingual tablet-based products and other products in hospital markets in the United States. We have designed and are developing product candidates that meet clearly defined unmet medical needs, have clearly defined clinical development programs, target large commercial market opportunities and require modestly-sized commercial organizations in the United States. We selectively utilize third party contractors in order to maximize the capital efficiency of our development and commercialization efforts. We plan to enter into partnerships to market our product candidates outside the United States. In December 2013, we announced a commercial collaboration with Grünenthal, covering the territory of the European Union, certain other European countries and Australia for Zalviso for potential use in pain treatment within or dispensed by a hospital, hospice, nursing home or other medically supervised setting. We retain all rights in remaining countries, including the United States. We continue to seek partnerships to market Zalviso in markets outside of the Grünenthal territory and the United States.

Zalviso

Zalviso is our lead product candidate and we are seeking FDA approval for the use of Zalviso to treat moderate-to-severe acute pain in the hospital setting. We submitted an NDA for Zalviso in September 2013 and, as mentioned above, the FDA issued a CRL for Zalviso on July 25, 2014. In March 2015, we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss and clarify the need for an additional clinical study, and the potential design and objectives of such a study.

Our specific strategy with respect to Zalviso is to:

- seek regulatory approval in the United States;
- strengthen our commercial relationships for the manufacturing of the components and assembly of the Zalviso System;
- build a targeted hospital-directed sales force in the United States; and
- collaborate with Grünenthal to seek regulatory approval for Zalviso in their licensed territories.
- seek commercial partnerships for Zalviso in other unlicensed countries outside of the United States.

ARX-04

ARX-04 is a non-invasive, fast-onset sufentanil sublingual tablet product candidate for treatment of patients with moderate-to-severe acute pain, in medically supervised settings of trauma or injury, such as the emergency room, or for post-operative patients who are transitioning from the operating room to the recovery floor, or who are recovering from either short-stay or ambulatory surgery, and do not require more long-term, patient-controlled analgesia, as well as for battlefield casualty treatment, and by paramedics during patient transport. We plan to initiate our Phase 3 program for ARX-04 by the end of March 2015, and, pending completion of enrollment, we anticipate top-line results from this study in the fourth quarter of 2015.

We have been notified by the Department of Defense that they are preparing a contract to provide partial funding to support further development of ARX-04. We are engaged in the contracting process with the DoD to determine the nature, scope, amount and timing of the contract.

In the first half of 2015, contingent on DoD funding, we plan to initiate our second planned Phase 3 clinical trial, an open-label safety study of patients who present to the emergency room with moderate-to-severe pain due to trauma or injury. We expect top-line data from this trial in the second half of 2015. Approximately 40 patients are planned to be enrolled in this study. Timing of this trial is currently pending finalization of the DoD contract. Should we have delays in such contract negotiations, we may elect to delay this Phase 3 trial beyond the first half of 2015.

Our specific strategy with respect to ARX-04 is to:

- complete our Phase 3 clinical program and seek regulatory approval in the United States;
- further expand our relationship with our existing contract manufacturing organizations, or CMOs, for the manufacture of ARX-04;
- leverage and build upon the targeted hospital-directed sales force we are building for Zalviso in the United States; and
- seek commercial partnerships for ARX-04 in countries outside of the United States.

Further development of ARX-02 and ARX-03 will depend on the identification of a partner to support these efforts.

Sales and Marketing

We anticipate developing a distribution capability and commercial organization in the United States to market and sell our product candidates alone or with partners, while out-licensing commercialization rights outside of the United States. In executing our strategy, our goal is to have significant control over the development process and commercial execution for our product candidates, while retaining meaningful economics.

We plan to progressively build commercial capability to support introduction of Zalviso to the United States market as we move toward potential NDA approval. We foresee two stages of commercial execution to support successful introduction of Zalviso in the United States:

Prior to FDA approval of Zalviso, we plan to continue to:

- highlight the clinical and health economic data identifying the limitations of IV PCA in use today;
- increase awareness of the clinical profile of Zalviso through publication of our clinical data;
- create and deploy a focused scientific support team to gather a detailed understanding of individual hospital needs in order to be prepared to present Zalviso effectively at the time of commercial launch;
- establish advisory boards with anesthesiologists, surgeons, nurses and P&T committees to provide us with input on appropriate commercial positioning for Zalviso for each of these key audiences;
- build a sales and marketing organization that can define appropriate segmentation and positioning strategies and tactics for Zalviso; and
- design a post-approval clinical development program.

Assuming FDA approval, we plan to:

- establish Zalviso on hospital formularies through deployment of an experienced team to explain the clinical and economic benefits of Zalviso in comparison to IV PCA;
- create and progressively deploy a high-quality, customer focused and experienced sales organization dedicated to bringing innovative, highly-valued healthcare solutions to patients, payors and healthcare providers, including progressively building a targeted hospital-directed sales force of approximately 65 people in the United States;
- conduct post-approval clinical trials for Zalviso;
- establish Zalviso as the product of choice for traditional post-operative PCA; and
- expand the market through deployment of Zalviso for 24-hour stay patients, and other in-hospital acute pain conditions.

Collaborative Arrangements

Grünenthal Collaboration

In December 2013, we announced a commercial collaboration with Grünenthal for Zalviso covering the countries of the European Union, Switzerland, Liechtenstein, Iceland, Norway and Australia, or the Territory, for human use in pain treatment within or dispensed by hospitals hospices, nursing homes and other medically-supervised settings, or the Field. The collaboration included a License Agreement and a Supply Agreement.

License Agreement. Under the terms of the License Agreement, Grünenthal has the exclusive right to commercialize Zalviso in the Field in the Territory. AcelRx retains control of clinical development, while Grünenthal will be responsible for certain development activities pursuant to a development plan to be agreed between the parties. Grünenthal is exclusively responsible for marketing approval applications and other regulatory filings relating to the sufentanil sublingual tablet drug cartridge for Zalviso in the Field in the Territory, while we are responsible for the CE Mark and other regulatory filings relating to device portions of Zalviso.

Grünenthal will have a right of first negotiation with respect to proposed exploitation in the Territory of Zalviso outside of the Field or the proposed exploitation in the Territory of another pharmaceutical product delivered with a PCA device for transmucosal application. Either party has the right to remove Australia from the Territory for purposes of the collaboration if Grünenthal's marketing approval or commercialization activities do not meet specified timelines set forth in the GRT
License Agreement.

Under the terms of the License Agreement, we received an upfront cash payment of $30.0 million in December 2013, and in the third quarter of 2014, we received a milestone payment of $5.0 million related to the MAA submission. We are eligible to receive an additional $15.0 million milestone payment upon the approval of the MAA. If approved, we are eligible to receive approximately $200.0 million in additional milestone payments, based upon successful regulatory and product development efforts and net sales target achievements. Grünenthal will also make tiered royalty, supply and trademark fee payments in the mid-teens up to the mid-twenties percent range, on net sales of Zalviso in the Territory.

Grünenthal will be responsible for all commercial activities for Zalviso, including obtaining and maintaining pharmaceutical product regulatory approval in the Territory. We will be responsible for obtaining and maintaining device regulatory approval in the Territory and manufacturing and supply of Zalviso to Grünenthal for commercial sales. A CE Mark (#611742) for Zalviso was obtained in the fourth quarter 2014 which specifies AcelRx as the device design authority and manufacturer.

Unless earlier terminated, the License Agreement continues in effect until the expiration of the obligation of Grünenthal to make royalty and supply and trademark fee payments, which supply and trademark fee continues for so long as AcelRx continues to supply Zalviso to Grünenthal. The License Agreement is subject to earlier termination in the event the parties mutually agree, by a party in the event of an uncured material breach by the other party, upon the bankruptcy or insolvency of either party, or by Grünenthal for convenience.

Manufacturing Agreement. Under the terms of the Manufacturing Agreement, we will manufacture and supply Zalviso for use in the Field for the Territory exclusively for Grünenthal. Grünenthal shall purchase from AcelRx, during the first five years after the effective date of the Manufacturing Agreement, 100% and thereafter 80% of Grünenthal's and its sublicensees' and distributors' requirements of Zalviso for use in the Field for the Territory. Zalviso will be supplied at our fully burdened manufacturing cost (as defined in the Manufacturing Agreement). The Manufacturing Agreement requires us to use commercially reasonable efforts to enter stand-by contracts with third parties providing significant supply and manufacturing services and under certain specified conditions permits Grünenthal to use a third party back-up manufacturer to manufacture Zalviso for Grünenthal's commercial sale in the Territory.

Unless earlier terminated, the Manufacturing Agreement continues in effect until the later of the expiration of the obligation of Grünenthal to make royalty and supply and trademark fee payments or the end of any transition period for manufacturing obligations due to the expiration or termination of the License Agreement. The Manufacturing Agreement is subject to earlier termination in connection with certain termination events in the License Agreement, in the event the parties mutually agree, by a party in the event of an uncured material breach by the other party or upon the bankruptcy or insolvency of either party.

Intellectual Property

We seek patent protection in the United States and internationally for our product candidates. Our policy is to pursue, maintain and defend patent rights developed internally and to protect the technology, inventions and improvements that are commercially important to the development of our business. We cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents granted to us in the future will be commercially useful in protecting our technology. We also rely on trade secrets to protect our product candidates. Our commercial success also depends in part on our non-infringement of the patents or proprietary rights of third parties. For a more comprehensive discussion of the risks related to our intellectual property, please see “Risk Factors—Risks Related to Our Intellectual Property” appearing elsewhere in this Form 10-K.

Our success will depend significantly on our ability to:

- obtain and maintain patent and other proprietary protection for our product candidates;
- defend our patents;
- preserve the confidentiality of our trade secrets; and
- operate our business without infringing the patents and proprietary rights of third parties.

We have established and continue to build proprietary positions for our product candidates and related technology in the United States and abroad.

As of December 31, 2014, we are the owner of record of 16 issued U.S. patents, which provide coverage for sufentanil sublingual tablets, the device components of Zalviso and of ARX-02, ARX-03 and ARX-04 Tablet Single Dose

Applicator, or SDA. These patents provide coverage through at least 2027. We also hold four issued European patents, each valid in at least six countries in Europe. In addition, we own five patents in Japan, four in China and three in Korea, and a number of other international patents which provide coverage through at least 2027. We are also pursuing a number of U.S. and foreign patent applications. The patent applications that we have filed and have not yet been granted may fail to result in issued patents in the United States or in foreign countries. Even if the patents do successfully issue, third parties may challenge the patents.

We continue to seek and expand our patent protection for both compositions of matter and delivery devices, as well as methods of treatment related to our product candidates. In particular, we are pursuing additional patent protection for our ARX-01, ARX-02, ARX-03 and ARX-04 sufentanil sublingual tablets and sufentanil/triazolam sublingual tablets and formulations, our Zalviso device, the combination of drugs and our Zalviso device, our ARX-02, ARX-03 and ARX-04 SDA, as well as to methods of treatment using such drug and device compositions.

We have filed for additional patent coverage in the United States, Europe as well as many other foreign jurisdictions including, Japan, China, India, Canada and Korea. If issued, and if the appropriate maintenance, renewal, annuity or other governmental fees are paid, we expect that these patents will expire between 2027 and 2030, excluding any additional term for patent term adjustments or patent term extensions in the United States. We note that the patent laws of foreign countries differ from those in United States, and the degree of protection afforded by foreign patents may be different from the protection offered by U.S. patents.

Further, we seek trademark protection in the United States and internationally where available and when appropriate. We have registered our ACELRX mark in Class 5, “Pharmaceutical preparations for treating pain; pharmaceutical preparations for treating anxiety,” and Class 10, “Drug delivery systems; medical device, namely, a mechanical and electronic device used to administer medications, perform timed medication delivery, and to provide secure access to and delivery of medications,” in the United States.

Our ACELRX mark is also registered in the European Community, Canada, and India. We have also registered the mark ACCELERATE. INNOVATE. ALLEVIATE. in the United States.

Competition

Our industry is highly competitive and subject to rapid and significant technological change. Our potential competitors include large pharmaceutical and biotechnology companies, specialty pharmaceutical and generic drug companies, and medical technology companies. We believe the key competitive factors that will affect the development and commercial success of our product candidates are the safety, efficacy and tolerability profile, the patient and healthcare professional satisfaction with using our product candidates in relation to available alternatives and the reliability, convenience of dosing, price and reimbursement of our product candidates.

Many of our potential competitors, including many of the organizations named below, have substantially greater financial, technical and human resources than we do and significantly greater experience in the development of product candidates, obtaining FDA and other regulatory approvals of products and the commercialization of those products. Accordingly, our competitors may be more successful than we may be in obtaining FDA approval for drugs and achieving widespread market acceptance. Our competitors' drugs may be more effective, or may be more effectively marketed and sold, than any drug we may commercialize, which may render our product candidates obsolete or non-competitive before we can recover our losses. We anticipate that we will face intense and increasing competition as new drugs enter the market and advanced technologies become available.

Potential Competition for Zalviso

We are developing Zalviso for the management of moderate-to-severe acute pain in adult patients during hospitalization. We believe that Zalviso would compete with a number of opioid-based and non-opioid based treatment options that are currently available, as well as some products that are in development. These products can be grouped into three classes – PCA-based systems, most commonly using an opioid as the pain control agent; non PCA-based systems that require nurse delivery of oral or parenteral opioids; and other non-opioid based treatment modalities. Due to the difficulty of managing moderate-to-severe pain, healthcare professionals will often use a combination of PCA opioids, parenteral or oral opioids and non-opioid based treatments to manage pain.

The primary competition for Zalviso is the IV PCA pump, which is widely used in the management of moderate-to-severe acute pain in the hospital setting. Leading manufacturers of IV PCA pumps include Hospira Inc. (recently acquired by Pfizer), CareFusion Corporation (recently purchased by Becton Dickinson & Co.), Baxter International Inc., Curlin Medical, Inc. and Smiths Medical. The most common opioids used to treat moderate-to-severe acute pain are morphine, hydromorphone and fentanyl, all of which are available as generics both from generic product manufacturers as well as from compounding pharmacies. In addition, branded manufacturers (e.g., Hospira, Inc.) sell pre-filled glass syringes of morphine to fit their IV PCA pump systems.

Also available on the market is the Avancen Medication on Demand, or MOD, Oral PCA Device developed by Avancen MOD Corporation. Oral opioids and other agents can be used in this system. In addition, oral and parenteral opioids administered by the nurse are used to manage moderate-to-severe acute pain in the hospital, available both as branded and generic products. These oral opioids, as well as IV PCA opioids, are often used as part of a multi-modal analgesia approach, which might include, in addition to the opioid, NSAIDs, acetaminophen, gabapentanoids and other pain management modalities, as well as local anesthetic blocks to provide temporary blockage of the pain signal, either as a wound infiltration agent or as a nerve block. These local anesthetic agents such as bupivacaine can also utilize controlled-release formulations such as Pacira's EXPAREL In addition, Halyard Health, Inc. has developed a medical device, the ON-Q* Pain Relief System, which is a non-narcotic elastomeric pump that automatically and continuously delivers a regulated flow of local anesthetic to a patient's surgical site or in close proximity to nerves, providing targeted pain relief for up to five days.

Additional potential competitors for Zalviso include products in development, including the fentanyl iontophoretic transdermal system, IONSYS, originally developed by ALZA Corporation and Ortho-McNeil Pharmaceutical, Inc., both Johnson & Johnson subsidiaries, and now under development by The Medicines Company. The Medicines Company has reported that IONSYS has a PDUFA date of April 30, 2015. If approved on this date, IONSYS may be marketed prior to the potential approval of Zalviso which may provide a first-to-market advantage for IONSYS. Cara Therapeutics is developing a kappa opioid agonist, CR845, as an IV agent for the management of post-operative moderate-to-severe pain. Trevena is developing TRV130, an intravenous G protein biased ligand that targets the mu opioid receptor for the treatment of moderate-to-severe acute pain where intravenous therapy is preferred, with a clinical development focus in acute postoperative pain. In January 2015, Trevena initiated a Phase 2b clinical study of TRV130. Recro Pharma is developing an intranasal form of dexmedetomidine as a potential agent for the management of post-operative pain. Finally, Innocoll is developing XARACOLL, a controlled-release resorbable implant containing bupivacaine, and Durect has been developing POSIDUR, a controlled-release bupivacaine product candidate utilizing Durect's SABER technology.

Potential Competition for ARX-04

Within the civilian environment, there are a wide variety of approved injectable and oral opioid products to treat moderate-to-severe acute pain, including IV opioids such as morphine, fentanyl, hydromorphone and meperidine or oral opioids such as oxycodone and hydrocodone. More specifically, competitors for ARX-04 in the emergency department are likely to include generic injectable intravenous opioids such as morphine, hydromorphone and fentanyl. In this environment, ARX-04 may also compete with other branded non-invasive products such as Eagalet's SPRIX, Hospira's DYLOJECT, Pfizers OXECTA, Depomed's NUCYNTA, BMS's COMBUNOX, Purdue's OXYFAST, Endo's OPANA, or generic oral opioids which have moderate-to-severe acute pain labeling. In the short-stay or ambulatory surgery segment, ARX-04 will likely compete with these products in addition to generic injectable local anesthetics such as bupivacaine, or branded formulations thereof, including Pacira's EXPAREL. Within the military environment, and in certain civilian settings, ARX-04 competitors may also include intramuscular morphine injections which are marketed by a variety of generic manufacturers.

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Potential Competition for ARX-02

We are developing ARX-02, the Sufentanil Sublingual Tablet BTP Management System, for the treatment of breakthrough pain in opioid tolerant patients, with an initial indication in cancer patients. The market for opioids for treatment of cancer breakthrough pain is large and competitive; however, currently there are no sufentanil products approved by the FDA for this indication. Our potential competitors for ARX-02 include products approved in the United States for cancer breakthrough pain, including: ACTIQ and FENTORA, currently manufactured by Teva Pharmaceuticals; Onsolis, currently manufactured by BioDelivery Sciences International, Inc.; Abstral, currently manufactured by ProStrakan Group plc; Lazanda, currently manufactured by Depomed, Inc.; Subsys, currently manufactured by Insys Therapeutics, Inc., as well as products approved in Europe, including Instanyl, currently manufactured by Takeda Pharmaceuticals International GmbH. The active ingredient in all approved products for cancer breakthrough pain is fentanyl. Additional potential competitors for ARX-02 include products in late stage development for cancer breakthrough pain, such as: Fentanyl TAIFUN, currently manufactured by Akela Pharma, Inc.

Potential Competition for ARX-03

We are developing ARX-03, the Sufentanil/Triazolam Sublingual Tablet, for use in diagnostic or therapeutic painful procedures of short duration in a physician's office. For these procedures, many practitioners rely primarily on local anesthetics injected to the procedural area to reduce the pain of the procedure, and do not use IV sedatives to manage the anxiety of patients because of the cost of having additional trained staff to monitor the patients. Currently, we are not aware of any products on the market which combine an opioid with a benzodiazepine in a single dosage form to manage the anxiety and pain of procedures in a physician's office. We are not aware of any approved or development stage non-IV sedative/analgesic products that would present competition to ARX-03. In the future, there may be products developed or approved for this market which could directly compete with ARX-03.

Pharmaceutical Manufacturing and Supply

We currently rely on contract manufacturers to produce sufentanil sublingual tablets and sufentanil/triazolam sublingual tablets for our clinical trials under current Good Manufacturing Practices, or cGMP, with oversight by our internal managers. Equipment specific to the pharmaceutical manufacturing process was purchased and customized by us and is currently owned by us. We plan to continue to rely on contract manufacturers and, potentially, collaboration partners to manufacture commercial quantities of our product candidates if and when approved for marketing by the FDA. We currently rely on a single manufacturer for the preclinical and clinical supplies of our drug product for each of our product candidates and do not currently have agreements in place for redundant supply or a second source for any of our product candidates. We have identified other manufacturers that could satisfy our commercial supply and packaging requirements and we continue to evaluate those manufacturers.

In January 2013, we entered into a Manufacturing Services Agreement, or the Services Agreement, with Patheon Pharmaceuticals, Inc., or Patheon, relating to the manufacture of sufentanil sublingual tablets for use with the Zalviso device. Under the terms of the Services Agreement, Patheon has agreed to manufacture, supply, and provide certain validation and stability services with respect to Zalviso for sale in the United States, Canada, Mexico and other countries, subject to agreement by the parties to any additional fees for such other countries. The term of the Services Agreement extends until December 31, 2017, or the Initial Term, and will automatically renew thereafter for periods of two years, unless terminated by either party upon eighteen months' prior written notice; provided, however, that the Services Agreement may not be terminated without cause prior to the end of the Initial Term. In addition, we entered into a related Amended and Restated Capital Expenditure and Equipment Agreement, or the Amended Capital Agreement, related to clinical and commercial production of our product candidates. Under the terms of the Amended Capital Agreement, we have made, and may make certain future modifications to Patheon's Cincinnati facility.

Device Manufacturing and Supply

The device components of Zalviso are manufactured by contract manufacturers, component fabricators and secondary service providers. Suppliers of components, subassemblies and other materials are located in Korea, Japan, Germany, China, Taiwan, Canada and the United States. All contract manufacturers and component suppliers have been selected for their specific competencies in the manufacturing processes and materials that make up Zalviso. FDA regulations require that materials be produced under cGMPs or Quality System Regulation, or QSR. We outsource injection molding of all the plastic parts for the cartridge and device and product sub-assemblies; tablet cartridge filling and packaging; and assembly, packaging and labeling of the dispenser and controller.

ARX-02 is manufactured by contract manufacturers, component fabricators and secondary service providers. Suppliers of components, subassemblies and other materials are located in Korea, Japan, China, Taiwan, Canada and the United States. All contract manufacturers and component suppliers have been selected for their specific competencies in the manufacturing processes and materials that make up ARX-02. FDA regulations require that materials be produced under cGMPs or QSR, as required for the respective unit operation within the manufacturing process. We outsource injection molding of all the plastic parts for the SDA and MSD and product sub-assemblies; and filling, packaging and labeling of SDAs.

ARX-03 and ARX-04 both utilize SDAs in the delivery of the sufentanil/triazolam sublingual tablets and sufentanil sublingual tablets. FDA regulations require that materials be produced under cGMPs or QSR, as required for the respective unit operation within the manufacturing process. We outsource injection molding of all the plastic parts for the SDA, and product sub-assemblies; and filling, packaging and labeling of SDAs.

Government Regulation

Government authorities in the United States at the federal, state and local level, and in other countries, extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, labeling, packaging, storage, record-keeping, promotion, advertising, distribution, marketing, export and import of products such as those we are developing. Our product candidates must be approved by the FDA through the NDA process before they may legally be marketed in the United States.

In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or FDCA, and regulations. The process of obtaining regulatory approvals and complying with applicable laws and regulations requires the expenditure of substantial time and financial resources. Failure to comply at any time during the product development and approval process, or after approval, may subject an applicant to administrative or judicial sanctions. These sanctions could include the FDA’s refusal to approve pending applications, withdrawal of an approval, a clinical hold, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, refusals of government contracts, restitution, disgorgement or civil or criminal penalties. The process required by the FDA before a drug product may be marketed in the United States generally involves the following:

- completion of non-clinical laboratory tests, animal trials and formulation studies according to Good Laboratory Practices regulations;

- submission to the FDA of an investigational new drug, or IND, application which must become effective before human clinical trials may begin;

- performance of adequate and well-controlled human clinical trials according to Good Clinical Practices, or GCP, to establish the clinical safety and efficacy of the proposed drug product for its intended use;

- submission to the FDA of an NDA for a new drug product;

- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug product and the drug substance(s) are produced to assess compliance with cGMP;

- payment of user and facility fees; and

- FDA review and approval of the NDA.

The testing and approval process requires substantial time, effort and financial resources and we cannot be certain that any approvals for our product candidates will be granted on a timely basis, if at all.

Human clinical trials are typically conducted in three sequential phases that may overlap or be combined:

- *Phase 1.* The product is initially introduced into healthy human subjects and tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion. In the case of some products for severe or life-threatening diseases, especially when the product may be too inherently toxic to ethically administer to healthy volunteers, the initial human testing is often conducted in patients.

- *Phase 2.* Involves trials in a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted conditions and to determine dosage tolerance and optimal dosage and schedule.

- *Phase 3.* Clinical trials are undertaken to further evaluate dosage, clinical safety and efficacy in an expanded patient population at geographically dispersed clinical trial sites. These trials are intended to establish the overall risk/benefit ratio of the product and provide an adequate basis for product labeling.

Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and safety reports must be submitted to the FDA and the investigators for serious and unexpected adverse events. The FDA or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects or patients are being exposed to an unacceptable health risk. Similarly, an institutional review board, or IRB, can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's requirements or if the drug or biological product has been associated with unexpected serious harm to patients.

Concurrent with clinical trials, companies usually complete additional animal trials and must also develop additional information about the chemistry and physical characteristics of the product and finalize a process for manufacturing the product in commercial quantities in accordance with cGMP and QSR for medical devices requirements. The manufacturing process must be capable of consistently producing quality batches of the product candidate and, among other things, the manufacturer must develop methods for testing the identity, strength, quality and purity of the final product. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the product candidate does not undergo unacceptable deterioration over its shelf life.

Our product candidates, Zalviso, ARX-02, ARX-03 and ARX-04, are regulated under IND applications for clinical development and in the case of Zalviso, all device related information is filed under the Chemistry, Manufacturing and Controls Section, or CMC, of an IND.

The results of product development, preclinical trials and clinical trials, along with descriptions of the manufacturing process, analytical tests conducted on our drug products, proposed labeling and other relevant information, will be submitted to the FDA as part of an NDA for a new drug product, requesting approval to market the product in the United States. The submission of an NDA is subject to the payment of a substantial user fee; a waiver of such fee may be obtained under certain limited circumstances. During its review of an NDA, FDA may inspect our manufacturers for GMP and QSR compliance, and our pivotal clinical trial sites for GCP compliance.

In addition, under the Pediatric Research Equity Act, an NDA or supplement to an NDA must contain data to assess the safety and effectiveness of the drug product for the claimed indications in all relevant pediatric subpopulations and to support dosing and administration for each pediatric subpopulation for which the product is safe and effective. The FDA may grant deferrals for submission of data or full or partial waivers.

The approval process is lengthy and difficult and the FDA may refuse to approve an NDA if the applicable regulatory criteria are not satisfied or may require additional clinical data or other data and information. Even if such data and information is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data obtained from clinical trials are not always conclusive and the FDA may interpret data differently than we interpret the same data. The FDA issues a Complete Response Letter at the conclusion of its review if the NDA is not yet deemed ready for approval. A Complete Response Letter generally outlines the deficiencies in the submission and

may require substantial additional testing or information for the FDA to reconsider the application. If, or when, those deficiencies have been addressed to the FDA's satisfaction in a resubmission of the NDA, the FDA will issue an approval letter. The FDA has committed to reviewing such resubmissions in two or six months depending on the type of information included.

If one or more of our product candidates receive regulatory approval, the approval may be limited to specific conditions and dosages or the indications for use may otherwise be limited, which could restrict the commercial value of the product. Our product candidates, if approved, will also require Risk Evaluations and Mitigation Strategies, or REMS, which can include a medication guide, patient package insert, a communication plan, elements to assure safe use and implementation system, and must include a timetable for assessment of the REMS. Further, the FDA may require that certain contraindications, warnings or precautions be included in the product labeling and may require testing and surveillance programs to monitor the safety of approved products that have been commercialized. In addition, the FDA may require post-approval testing which involves clinical trials designed to further assess a drug product's safety and effectiveness after the NDA.

Post-Approval Requirements

Any drug products for which we receive FDA approvals are subject to continuing regulation by the FDA, including, among other things, record-keeping requirements, reporting of adverse experiences with the product, providing the FDA with updated clinical safety and efficacy information, product sampling and distribution requirements, complying with certain electronic records and signature requirements and complying with FDA promotion and advertising requirements. Phase 4 clinical trials are conducted after approval to gain additional experience from the treatment of patients in the intended therapeutic indication or when otherwise requested by the FDA in the form of postmarketing requirements or commitments. Failure to promptly conduct any required Phase 4 clinical trials could result in withdrawal of NDA approval. The FDA strictly regulates labeling, advertising, promotion and other types of information on products that are placed on the market. Drug products may be promoted only for the approved indications and in accordance with the provisions of the approved label. Further, manufacturers of drug products must continue to comply with cGMP requirements, which are extensive and require considerable time, resources and ongoing investment to ensure compliance. In addition, changes to the manufacturing process generally require prior FDA approval before being implemented and other types of changes to the approved product, such as adding new indications and additional labeling claims, are also subject to further FDA review and approval.

Drug product manufacturers and other entities involved in the manufacturing and distribution of approved drug products are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with cGMP and other laws. The cGMP requirements apply to all stages of the manufacturing process, including the production, processing, packaging, labeling, storage and shipment of the drug product. Manufacturers must establish validated systems to ensure that products meet specifications and regulatory standards, and test each product batch or lot prior to its release. In the case of Zalviso, the device component must comply with FDA's Quality Systems Regulation.

We rely, and expect to continue to rely, on third parties for the production of clinical and commercial quantities of our products. Future FDA and state inspections may identify compliance issues at the facilities of our contract manufacturers that may disrupt production or distribution or may require substantial resources to correct.

The FDA may withdraw a product approval if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. Later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market. Further, the failure to maintain compliance with regulatory requirements may result in administrative or judicial actions, such as fines, warning letters, holds on clinical trials, product recalls or seizures, product detention or refusal to permit the import or export of products, refusal to approve pending applications or supplements, restrictions on marketing or manufacturing, injunctions or civil or criminal penalties.

Foreign Regulation

In addition to regulations in the United States, we will be subject to a variety of foreign regulations governing clinical trials and commercial sales and distribution of our products to the extent we choose to sell any products outside of the United States. In October 2012, we received notice from the European Medicines Agency, or EMA, that Zalviso was eligible for centralized marketing authorization application, or MAA, in the European Union, or EU. This regulatory procedure, reserved for novel products, biotechnology products and new chemical entities, allows for commercialization across 31 EU and EFTA countries based on approval by EMA. In July 2014, Grünenthal filed an MAA with the EMA under the centralized procedure in the EU for Zalviso for the management of moderate-to-severe acute pain in adult patients in a medically-supervised environment. In addition, since Zalviso is considered a drug-device combination product candidate, conformance to the European Medical Device Directive required Conformite Europeenne, or CE, Mark approval for the Zalviso device to enable commercialization in the EU. In December 2014, we announced that we had received CE Marking for Zalviso. Outside of Europe, the requirements and approval process vary from country to country and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country.

Controlled Substances Regulations

Sufentanil, a Schedule II controlled substance, is the active pharmaceutical ingredient in Zalviso, ARX-02, ARX-03 and ARX-04. Triazolam, a Schedule IV controlled substance, is also an active pharmaceutical ingredient in ARX-03. Controlled substances are governed by the Drug Enforcement Administration, or DEA, of the U.S. Department of Justice. The handling of controlled substances and/or drug product by us, our contract manufacturers, analytical laboratories, packagers and distributors, are regulated by the Controlled Substances Act and regulations thereunder.

The Drug Supply Chain Security Act imposes new obligations on manufacturers of pharmaceutical products, among others, related to product tracking and tracing. Among the requirements are that manufacturers will be required to provide certain information regarding the drug product to individuals and entities to which product ownership is transferred, label drug product with a product identifier, and keep certain records regarding the drug product. Further, manufacturers will have drug product investigation, quarantine, disposition, and notification responsibilities related to counterfeit, diverted, stolen, and intentionally adulterated products, as well as products that are the subject of fraudulent transactions or which are otherwise unfit for distribution such that they would be reasonably likely to result in serious health consequences or death.

Unforeseen delays to the drug substance and drug product manufacture and supply chain may occur due to delays, errors or other unforeseen problems with the permitting and quota process. Also, any one of our suppliers, contract manufacturers, laboratories, packagers and/or distributors could be the subject of DEA violations and enforcement could lead to delays or even loss of DEA license by the contractors.

Federal and State Fraud and Abuse and Data Privacy and Security and Transparency Laws and Regulations

In addition to FDA restrictions on marketing of pharmaceutical products, federal and state healthcare laws restrict certain business practices in the pharmaceutical industry. These laws include, but are not limited to, anti-kickback, false claims, data privacy and security, and transparency statutes and regulations.

The federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, to induce, or in return for, purchasing, leasing, ordering or arranging for the purchase, lease or order of any good, facility, item or service reimbursable under Medicare, Medicaid or other federal healthcare programs. The term “remuneration” has been broadly interpreted to include anything of value, including for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payment, ownership interests and providing anything at less than its fair market value. The Anti-Kickback Statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on one hand and prescribers, purchasers and formulary managers on the other. Although there are a number of statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and our practices may not in all cases meet all of the criteria for a statutory exception or safe harbor protection. Practices that involve remuneration that may be alleged to be intended to induce prescribing, purchases or recommendations may be subject to scrutiny if they do not qualify for an exception or safe harbor. A claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act (discussed below).

The federal false claims laws prohibit, among other things, any person or entity from knowingly presenting, or causing to be presented, a false or fraudulent claim for payment or approval to the federal government or knowingly making, using or causing to be made or used a false record or statement material to a false or fraudulent claim to the federal government. Pharmaceutical and other healthcare companies have been prosecuted under these laws for, among other things, allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. Other companies have been prosecuted for causing false claims to be submitted because of the companies’ marketing of the product for unapproved, and thus non-reimbursable, uses. Further, civil monetary penalties statute imposes penalties against any person or entity who, among other things, is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent.

In addition, we may be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH, and its implementing regulations, imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to business associates—independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also created four new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Additionally, the federal Physician Payments Sunshine Act within the PPACA, and its implementing regulations, require that certain manufacturers of drugs, devices, biologicals and medical supplies for which federal healthcare program payment is available to report information related to certain payments or other transfers of value made or distributed to physicians and teaching hospitals, or to entities or individuals at the request of, or designated on behalf of, the physicians and teaching hospitals and to report annually certain ownership and investment interests held by physicians and their immediate
family members.

Also, many states have similar healthcare statutes or regulations that apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payer. FDA and some states require the posting of information relating to clinical studies. In addition, California requires pharmaceutical companies to implement a comprehensive compliance program that includes a limit on expenditures for, or payments to, individual medical or health professionals. If our operations are found to be in violation of any of the health regulatory laws described above or any other laws that apply to us, we may be subject to penalties, including potentially significant criminal, civil and/or administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion of products from reimbursement under government programs, contractual damages, reputational harm, administrative burdens, diminished profits and future earnings and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. To the extent that any of our products will be sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, applicable post-marketing requirements, including safety surveillance, anti-fraud and abuse laws and implementation of corporate compliance programs and reporting of payments or transfers of value to healthcare professionals.

Pharmaceutical Coverage, Pricing and Reimbursement

In both domestic and foreign markets, our sales of any approved products will depend in part on the availability of coverage and adequate reimbursement from third-party payers. Third-party payers include government health administrative authorities, managed care providers, private health insurers and other organizations. Sales of our products will depend substantially, both domestically and abroad, on the extent to which the costs of our products will be paid by third-party payers. These third-party payers are increasingly focused on containing healthcare costs by challenging the price and examining the cost-effectiveness of medical products and services. In addition, significant uncertainty exists as to the coverage and reimbursement status of newly approved healthcare product candidates. Third-party payers may refuse to include a particular branded drug in their formularies or otherwise restrict patient access to a branded drug when a less costly generic equivalent or other alternative is available. Because each third-party payer individually approves coverage and reimbursement levels, obtaining coverage and adequate reimbursement is a time-consuming, costly and sometimes unpredictable process. We may be required to provide scientific and clinical support for the use of any product to each third-party payer separately with no assurance that approval would be obtained, and we may need to conduct expensive pharmacoeconomic studies in order to demonstrate the cost-effectiveness of our products. This process could delay the market acceptance of any product and could have a negative effect on our future revenues and operating results. We cannot be certain that our products and our product candidates will be considered cost-effective. Because coverage and reimbursement determinations are made on a payer-by-payer basis, obtaining acceptable coverage and reimbursement from one payer does not guarantee that we will obtain similar acceptable coverage or reimbursement from another payer. If we are unable to obtain coverage of, and adequate reimbursement and payment levels for, our product candidates from third-party payers, physicians may limit how much or under what circumstances they will prescribe or administer them. This in turn could affect our ability to successfully commercialize our products and impact our profitability, results of operations, financial condition and future success.

In addition, in many foreign countries, particularly the countries of the European Union, the pricing of prescription drugs is subject to government control. In some non-U.S. jurisdictions, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country. For example, the EU provides options for its member states to restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. A member state may approve a specific price for the medicinal product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market. We may face competition for our product candidates from lower-priced products in foreign countries that have placed price controls on pharmaceutical products. In addition, there may be importation of foreign products that compete with our own products, which could negatively impact our profitability.

Healthcare Reform

In the United States and foreign jurisdictions, there have been, and we expect there will continue to be, a number of legislative and regulatory changes to the healthcare system that could affect our future results of operations as we

begin to commercialize our products. In particular, there have been and continue to be a number of initiatives at the United States federal and state level that seek to reduce healthcare costs. Government payment for some of the costs of prescription drugs may increase demand for our products for which we receive marketing approval. However, any negotiated prices for our future products will likely be lower than the prices we might otherwise obtain from non-governmental payers. Moreover, private payers often follow federal healthcare coverage policy and payment limitations in setting their own payment rates.

Furthermore, political, economic and regulatory influences are subjecting the healthcare industry in the United States to fundamental change. Initiatives to reduce the federal deficit and to reform healthcare delivery are increasing cost-containment efforts. We anticipate that Congress, state legislatures and the private sector will continue to review and assess alternative benefits, controls on healthcare spending through limitations on the growth of private health insurance premiums and Medicare and Medicaid spending, the creation of large insurance purchasing groups, price controls on pharmaceuticals and other fundamental changes to the healthcare delivery system. Any proposed or actual changes could limit or eliminate our spending on development projects and affect our ultimate profitability. In March 2010, PPACA was signed into law. Among other cost containment measures, PPACA established an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents. In the future, there may continue to be additional proposals relating to the reform of the U.S. healthcare system, some of which could further limit the prices we are able to charge for our products, or the amounts of reimbursement available for our products. If future legislation were to impose direct governmental price controls and access restrictions, it could have a significant adverse impact on our business. Managed care organizations, as well as Medicaid and other government agencies, continue to seek price discounts. Some states have implemented, and other states are considering, price controls or patient access constraints under the Medicaid program, and some states are considering price-control regimes that would apply to broader segments of their populations that are not Medicaid-eligible. Due to the volatility in the current economic and market dynamics, we are unable to predict the impact of any unforeseen or unknown legislative, regulatory, payer or policy actions, which may include cost containment and healthcare reform measures. Such policy actions could have a material adverse impact on our profitability.

Research and Development

Conducting research and development is central to our business model. We have invested and expect to continue to invest significant time and capital in our research and development operations. Our research and development expenses were $24.5 million, $26.3 million and $24.9 million during the years ended December 31, 2014, 2013 and 2012, respectively. We plan to incur significant expenditures for the foreseeable future as we seek to continue commercial preparations for Zalviso and development of ARX-04, and subsequently advance the development of ARX-02 and ARX-03 contingent upon additional funding or identification of corporate partnership resources.

Employees

As of December 31, 2014, we employed 50 full-time employees. None of our employees are subject to a collective bargaining agreement. We consider our relationship with our employees to be good.

Corporate Information

We were originally incorporated as SuRx, Inc. in Delaware on July 13, 2005. We subsequently changed our name to AcelRx Pharmaceuticals, Inc. on August 13, 2006. We file electronically with the U.S. Securities and Exchange Commission, or SEC, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We make available on our website at www.acelrx.com, free of charge, copies of these reports as soon as reasonably practicable after filing these reports with, or furnishing them to, the SEC.

Item 1A. Risk Factors

This Form 10-K contains forward-looking information based on our current expectations. Because our actual results may differ materially from any forward-looking statements made by or on behalf of us, this section includes a discussion of important factors that could affect our actual future results, including, but not limited to, our revenues, expenses, net loss and loss per share. We believe the risks described below are the risks that are material to us as of the date of this Form 10-K. If any of the following risks comes to fruition, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected.

Risks Related to Clinical Development and Regulatory Approval

We depend substantially on the success of Zalviso, which may not receive regulatory approval or be successfully commercialized.

Since our inception in 2005, we have focused primarily on development of our lead product candidate, Zalviso™. Zalviso consists of sufentanil sublingual tablets delivered by the Zalviso System, a needle-free, handheld, patient-administered, pain management system (together, "Zalviso"). The success of our business depends primarily upon our ability to develop, receive regulatory approval for and commercialize Zalviso for the management of moderate-to-severe acute pain in adult patients in the hospital setting. We have not marketed, distributed or sold any products to date.

Our Phase 3 program for Zalviso consisted of three Phase 3 clinical trials. We reported positive top-line data from each of these trials and submitted a New Drug Application, or NDA, for Zalviso to the U.S. Food and Drug Administration, or FDA, on September 27, 2013, which the FDA then accepted for filing in December 2013. On July 25, 2014, the FDA issued a Complete Response Letter, or CRL, for our NDA for Zalviso. The CRL contains requests for additional information on the Zalviso System to ensure proper use of the device. The requests include submission of data demonstrating a reduction in the incidence of optical system errors, changes to address inadvertent dosing, among other items, and submission of additional data to support the shelf life of the product. In September 2014, we held a teleconference with representatives from the FDA to review our proposed response to the Zalviso CRL. We submitted a Briefing Document to the FDA ahead of the teleconference and received preliminary comments from the FDA on the Briefing Document. During the meeting, we discussed the resubmission of the Zalviso NDA and the steps necessary for the resubmission, including submission of protocols for the bench testing and Human Factors, or HF, studies for their review and comment. In addition, the FDA requested in the minutes of the meeting that we provide a risk assessment that analyzes the risks associated with inadvertent dosing and the rationale that bench testing and HF studies are sufficient to address the specific items included in the CRL. We submitted the protocols and this rationale in the fourth quarter of 2014. In January 2015, we received feedback from the FDA on the protocol and planned

analysis of the results of the bench test. No modifications to the conduct of the bench test were necessary; however, in response to the FDA's request, we refined the planned analysis of the bench test results. In February 2015, we received feedback from the FDA on the HF protocols. In this feedback, the FDA confirmed that the HF studies as proposed were acceptable to evaluate the design changes related to inadvertent dispensing of tablets. In March 2015, we received additional correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss and clarify the need for an additional clinical study, and the potential design and objectives of such a study. As a result of this most recent FDA communication and the need for clarity with the FDA, resubmission of the NDA for Zalviso is on hold.

As noted above, we plan to hold a meeting with the FDA to discuss the recent correspondence. However, there is no guarantee that we will be granted such a meeting with the FDA and, even if granted, that it will occur on a timely basis. In addition, even if we are able to hold a meeting with the FDA, there is no guarantee that we will achieve clarity with respect to the FDA's March 2015 request for additional clinical data, or that we will be able to define the nature and scope of an additional clinical study to meet these requests. There is no guarantee that additional work we perform related to Zalviso, including an additional human clinical trial, will be supportive of an NDA resubmission, nor does it guarantee we will be successful in obtaining FDA approval of Zalviso in a timely fashion, if at all. At any future point in time, the FDA could require us to complete further clinical, Human Factors, pharmaceutical, reprocessing or other studies, which could delay or preclude any approval of the NDA and would require us to obtain significant additional funding. There is no guarantee such funding would be available to us on favorable terms, if at all.

Our proposed trade name of Zalviso has been approved by the FDA, which must approve all drug trade names to avoid medication errors and misbranding. However, the FDA may withdraw this approval in which case any brand recognition or goodwill that we establish with the name Zalviso prior to commercialization may be worthless.

Any delay in approval by the FDA of the Zalviso NDA may negatively impact our stock price and harm our business operations. Any delay in obtaining, or inability to obtain, regulatory approval would prevent us from commercializing Zalviso in the United States, generating revenues and achieving profitability. If any of these events occur, we may be forced to delay or abandon our development efforts for Zalviso, which would have a material adverse effect on our business and could potentially cause us to cease operations.

Although we have received CE Mark approval permitting the commercial use of the Zalviso device in the European Union, Grünenthal may never achieve regulatory approval for Zalviso in their licensed territories, including the EU and Australia, in which case, we would not receive development or sales milestones, or product royalties, which could have a material adverse effect on our business.

Positive clinical results obtained to date for our product candidates may be disputed in FDA review, do not guarantee regulatory approval and may not be obtained from future clinical trials.

We have reported positive top-line data from each of our three Zalviso Phase 3 clinical trials, as well as our Phase 2 clinical trial for ARX-04. However, even if we believe that the data from clinical trials is positive, the FDA could analyze our data using alternative strategies and determine that the data from our trials was negative or inconclusive. Negative or inconclusive results of a clinical trial could cause the FDA to require us to repeat the trial or conduct additional clinical trials prior to obtaining approval for commercialization, and there is no guarantee that additional trials would achieve positive results. Any such determination by the FDA would delay the timing of our commercialization plan for Zalviso, or further development of our other product candidates, and adversely affect our business operations. For example, although we had achieved the primary endpoints in each of our three Phase 3 clinical trials for Zalviso, which were included in our NDA filed in 2013, in March 2015, we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures.

Delays in clinical trials are common and have many causes, and any delay could result in increased costs to us and jeopardize or delay our ability to obtain regulatory approval and commence product sales.

We have experienced and may in the future experience delays in clinical trials of our product candidates. While we have completed pre-commercial trials for Zalviso, and the Phase 2 clinical trial for ARX-04, current and potential future clinical trials, such as with the ARX-04 Phase 3 clinical program, may not begin on time, have an effective design, enroll a sufficient number of patients or be completed on schedule, if at all. For example, in June 2014, we completed a pharmacokinetic study in support of the ARX-04 development program. In this study of healthy volunteers, it was shown that two sublingual administrations of a Zalviso 15mcg sufentanil sublingual tablet dosed 20 minutes apart were equivalent to one sublingual administration of an ARX-04 30mcg sufentanil sublingual tablet. Based on the results of this study, we have proposed the inclusion of approximately 300 patients from the Zalviso clinical program in the ARX-04 safety database to the FDA and we have designed the two Phase 3 ARX-04 trials accordingly. The ARX-04 safety database required by the FDA is 500 patients. We have confirmation from FDA that some of the Zalviso patients can be included in the overall ARX-04 safety database; however, further discussion is needed to determine the exact number of such patients that can be used towards achieving the 500 patient minimum total safety exposure number required for ARX-04. Based on an ongoing pharmacokinetic analysis, we may need to increase enrollment in our planned Phase 3 clinical trial program to meet the FDA's requested exposure requirements to ARX-04, which could delay the Phase 3 clinical program and increase our clinical trial expenses.

Our clinical trials for any of our product candidates could be delayed for a variety of reasons, including:

- inability to raise funding necessary to initiate or continue a trial;

- delays in finalizing, or inability to complete, the contract negotiations with DoD for ARX-04 funding;
- delays in obtaining regulatory approval to commence a trial;
- delays in reaching agreement with the FDA on final trial design;
- imposition of a clinical hold following an inspection of our clinical trial operations or trial sites by the FDA or other regulatory authorities;
- delays in reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites;
- delays in obtaining required institutional review board approval at each site;
- delays in recruiting suitable patients to participate in a trial;
- delays in the testing, validation, manufacturing and delivery of the device components of our product candidates;
- delays in having patients complete participation in a trial or return for post-treatment follow-up;
- clinical sites dropping out of a trial to the detriment of enrollment or being delayed in entering data to allow for clinical trial database closure;
- time required to add new clinical sites; or
- delays by our contract manufacturers to produce and deliver sufficient supply of clinical trial materials.

If any future clinical trials are delayed for any of the above reasons, our development costs may increase, our approval process could be delayed and our ability to commercialize and commence sales of our product candidates could be materially harmed, which could have a material adverse effect on our business.

We have never responded to a Complete Response Letter nor resubmitted an NDA. Activities that we undertake to address issues raised in the CRL may be deemed insufficient by the FDA.

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We recently completed bench testing and additional Human Factors studies that we believed addressed certain items contained in the CRL. However, before the results from these studies were submitted as a part of the proposed NDA resubmission, the FDA, in March 2015, notified us of the need for an additional clinical study prior to the resubmission of the Zalviso NDA.

In March 2015, we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss and clarify the need for an additional clinical study, and the potential design and objectives of such a study. As a result of this most recent correspondence, we may require additional funding in order to complete the additional clinical study requested by the FDA for Zalviso. Even if we have appropriate resources to conduct an additional clinical study, there is no guarantee that the study results would address the issues raised by the FDA. We may be unable to obtain additional funding on favorable terms, if at all. Any delay in obtaining, or inability to obtain, regulatory approval would prevent us from commercializing Zalviso in the United States, generating revenues and achieving profitability. If any of these events occur, we may be forced to delay or abandon our development efforts for Zalviso, which would have a material adverse effect on our business and could potentially cause us to cease operations.

If we are able to resubmit an NDA for Zalviso with new clinical data, there is no guarantee that such data will be deemed sufficient by the FDA. In addition, the FDA may evaluate the recent HF studies and bench testing and may have concerns or issues with those protocols and/or their results. While we designed the protocols for bench testing and the Human Factors studies to address the issues raised in the CRL, there is no guarantee that the FDA will deem such protocols and results sufficient to address those issues when they are formally reviewed as a part of an NDA resubmission.

Lastly, even if we believe that the test results from our bench testing and Human Factors studies are positive, and we are able to conduct and achieve positive results from the additional clinical trial the FDA has requested, the FDA may hold a different opinion and deem the results insufficient. The FDA may provide review commentary at any time during the resubmission and review process which could adversely affect or even prevent the approval of Zalviso, which would adversely affect our business. We may not be able to identify appropriate remediations to issues that the FDA may raise, and we may not have sufficient time nor financial resources to conduct future activities to remediate raised issues.

Our product candidates may cause adverse effects or have other properties that could delay or prevent their regulatory approval or limit the scope of any approved label or market acceptance.

Adverse events, or AEs, caused by our product candidates could cause us, other reviewing entities, clinical trial sites or regulatory authorities to interrupt, delay or halt clinical trials and could result in the denial of regulatory approval.

In our Phase 3 active comparator clinical trial (IAP309), 7.9% of Zalviso-treated patients dropped out of the trial prematurely due to an AE, and we observed one serious adverse event, or SAE, that was assessed as possibly or probably related to Zalviso. In our Phase 3, double-blind, placebo-controlled, abdominal surgery trial (IAP310), adverse events reported in the trial were generally mild or moderate in nature and similar in both placebo and treatment groups. In addition, one patient in the trial, who was in the sufentanil sublingual tablet group, experienced an SAE, which was determined to be unrelated to the trial drug. In our Phase 3, double-blind, placebo-controlled, orthopedic surgery trial (IAP311), treatment-emergent adverse events were generally mild-to-moderate in nature and similar for the majority of adverse events between sufentanil sublingual tablet- and placebo-treated patients. Two patients (one each in the sufentanil sublingual tablet group and placebo group) experienced a serious adverse event considered possibly or probably related to the trial drug by the investigator.

In our Phase 2 ARX-04 trial, two serious adverse events (SAEs), both in the 20 mcg-dose group, occurred one week after the study (surgical infections) and were deemed unrelated to study drug. All but two adverse events reported in the study were mild-to-moderate in nature with 58 patients (58%) reporting a total of 135 adverse events. The most frequently reported adverse events for all patients were nausea (30%), vomiting (17%), dizziness (14%) and somnolence (11%). Two patients discontinued treatment, one unrelated to study drug (anxiety/chest pain) and the other probably related to study drug (somnolence/respiratory depression); however, both patients recovered without medical intervention.

Phase 2 clinical trials conducted by us with our Zalviso, ARX-02, ARX-03 and ARX-04 product candidates have to date generated some AEs, but no SAEs, related to the trial drug.

Further, if any of our future products, including Zalviso, cause serious or unexpected side effects after receiving marketing approval, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw their approval of the product or impose restrictions on its distribution in the form of a modified Risk Evaluation and Mitigation Strategy, or REMS;
- regulatory authorities may require the addition of labeling statements, such as warnings or contraindications;
- we may be required to change the way the product is administered or conduct additional clinical trials;
- we could be sued and held liable for harm caused to patients; or
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product candidate and could substantially increase the costs of commercializing our product candidates.

Additional time may be required to obtain regulatory approval for Zalviso because it is a drug/device combination.

Zalviso is a combination product candidate with both drug and device components. Zalviso is viewed as a combination product by the FDA, and both drug and device components were required for review as part of our NDA submission. There are very few examples of the FDA approval process for drug/device combination products such as Zalviso. As a result, we have in the past, and may in the future, experience delays in the development and commercialization of Zalviso due to regulatory uncertainties in the product development and approval process, in particular as it relates to a drug/device combination product approval under an NDA. For example, the Zalviso CRL received from the FDA in July 2014 contains requests for additional information on the Zalviso System to ensure proper use of the device. The requests include submission of data demonstrating a reduction in the incidence of optical system errors, changes to address inadvertent dosing, among other items, and submission of additional data to support the shelf life of the product. Furthermore, in March 2015, we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss and clarify the need for an additional clinical study, and

the potential design and objectives of such a study. We may be unable to come to an agreement with the FDA on the need, design or objectives of the requested clinical study. Even if we come to an agreement on the design and objectives of the clinical study and are able to complete the clinical study, the FDA may deem the results of the clinical study, as well as bench testing and/or the Human Factors studies inadequate, which could delay or preclude any approval of Zalviso.

We cannot predict when we will obtain regulatory approval to commercialize any of our product candidates, if at all, and we cannot, therefore, predict the timing of any future revenue.

We cannot commercialize any of our product candidates, including Zalviso, until the appropriate regulatory authorities, such as the FDA or the European Medicines Agency, or EMA, have reviewed and approved the product candidate. The regulatory agencies may not complete their review processes in a timely manner, or we may be unable to obtain regulatory approval for our product candidates. We received a CRL for Zalviso on July 25, 2014, which contains requests for additional information on the Zalviso System and requires us to complete additional bench testing and Human Factors studies. In the CRL, the FDA acknowledged that it had not reviewed several of the amendments to the NDA we submitted to the FDA before the CRL was issued. In addition, in March 2015, we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We plan to meet with the FDA to discuss and clarify the need for an additional clinical study, and the potential design and objectives of such a study. Additional delays may result if any of our product candidates is taken before an FDA Advisory Committee which may recommend restrictions on approval or recommend non-approval. In addition, we may experience delays or rejections based upon additional government regulation from future legislation or administrative action, or changes in regulatory agency policy during the period of product development, clinical trials and the review process.

The FDA and other foreign regulatory agencies, such as the EMA, can delay, limit or deny marketing approval for many reasons, including:

- a product candidate may not be considered safe or effective;
- the manufacturing processes or facilities we have selected may not meet the applicable requirements; and
- changes in their approval policies or adoption of new regulations may require additional work on our part.

Part of the regulatory approval process includes compliance inspections of manufacturing facilities to ensure adherence to applicable regulations and guidelines. The regulatory agency may delay, limit or deny marketing approval of our product candidates as a result of such inspections. In June 2014, the FDA completed an inspection at our corporate offices. We received a single observation on a Form 483 as a result of the inspection. Although we believe we have adequately addressed this observation in a revised standard operating procedure, we, our contract manufacturers, and their vendors are all subject to preapproval inspections at any time. In addition, in January 2015,

the EMA conducted a pre-approval inspection of our Zalviso contract manufacturer's manufacturing and packaging site, the formal results of which we have not yet received. The results of these inspections could impact our ability to obtain FDA or EMA approval for Zalviso, and, if approved, our ability to launch and successfully commercialize Zalviso.

Any delay in, or failure to receive or maintain, approval for any of our product candidates could prevent us from generating meaningful revenues or achieving profitability. Our product candidates may not be approved even if they achieve their endpoints in clinical trials. Regulatory agencies, including the FDA, or their advisors may disagree with our trial design and our interpretations of data from preclinical studies and clinical trials. Regulatory agencies may change requirements for approval even after a clinical trial design has been approved. The FDA exercises significant discretion over the regulation of combination products, including the discretion to require separate marketing applications for the drug and device components in a combination product. To date, our product candidates are being regulated as drug products under the NDA process administered by the FDA. The FDA could in the future require additional regulation of our product candidates under the medical device provisions of the FDCA. Our systems are designed to comply with the Quality Systems Regulation, or QSR, which sets forth the FDA's current good manufacturing practice, or cGMP, requirements for medical devices, and other applicable government regulations and corresponding foreign standards for drug cGMPs. If we fail to comply with these regulations, it could have a material adverse effect on our business and financial condition.

Regulatory agencies also may approve a product candidate for fewer or more limited indications than requested or may grant approval subject to the performance of post-marketing trials. In addition, regulatory agencies may not approve the labeling claims that are necessary or desirable for the successful commercialization of our product candidates. For example, we intend to resubmit our NDA seeking approval of Zalviso for the management of moderate-to-severe acute pain in adult patients in the hospital setting; however, our clinical trial data was generated exclusively from the post-operative segment of this population, and the FDA may restrict any approval to post-operative patients only, which would reduce our commercial opportunity.

The process for obtaining approval of an NDA is time consuming, subject to unanticipated delays and costs, and requires the commitment of substantial resources.

If the FDA determines that any of the clinical work submitted, including the clinical trials, Human Factors studies and bench testing submitted for a product candidate in support of an NDA were not conducted in full compliance with the applicable protocols for these trials, studies and testing as well as with applicable regulations and standards, or if the FDA does not agree with our interpretation of the results of such trials, studies and testing, the FDA may reject the data and results. The FDA may audit some of our clinical trial sites to determine the integrity of our clinical data. The FDA may audit some of our Human Factors study sites to determine the integrity of our data and may audit the data and results of bench testing. Any rejection of any of our data would negatively impact our ability to obtain marketing authorization for a product candidate and would have a material adverse effect on our business and financial condition. In addition, an NDA may not be approved, or approval may be delayed, as a result of changes in FDA policies for drug approval during the review period. For example, although many products have been approved by the FDA in recent years under Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act, or FDCA, objections have been raised to the FDA's interpretation of Section 505(b)(2). If challenges to the FDA's interpretation of Section 505(b)(2) are successful, the FDA may be required to change its interpretation, which could delay or prevent the approval of such an NDA. Any significant delay in the acceptance, review or approval of an NDA that we have submitted would have a material adverse effect on our business and financial condition and would require us to obtain significant additional funding.

Even if we obtain regulatory approval for Zalviso and our other product candidates, we and our collaborators face extensive regulatory requirements and our products may face future development and regulatory difficulties.

Even if we obtain regulatory approval in the United States, the FDA may impose significant restrictions on the indicated uses or marketing of our product candidates, or impose ongoing requirements for potentially costly post-approval trials or post-market surveillance. Additionally, the labeling ultimately approved for Zalviso and our other product candidates, if approved, will likely include restrictions on use due to the opioid nature of sufentanil.

Zalviso and our other product candidates, if approved in the future, will also be subject to ongoing FDA requirements governing the labeling, packaging, storage, distribution, safety surveillance, advertising, promotion, record-keeping and reporting of safety and other post-market information. The holder of an approved NDA is obligated to monitor and report AEs and any failure of a product to meet the specifications in the NDA. The holder of an approved NDA must also submit new or supplemental applications and obtain FDA approval for certain changes to the approved product, product labeling or manufacturing process. Advertising and promotional materials must comply with FDA rules and are subject to FDA review, in addition to other potentially applicable federal and state laws.

We must also register and obtain various state prescription drug distribution licenses and controlled substance permits, and any delay or failure to obtain or maintain these licenses or permits may limit our market and materially impact our business. In addition, manufacturers of drug products and their facilities are subject to payment of user fees and continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMPs and adherence to commitments made in the NDA. If we, or a regulatory agency, discover previously unknown problems with a product, such as AEs of unanticipated severity or frequency, or problems with the facilities where the product is manufactured, a regulatory agency may impose restrictions relative to that product or the manufacturing facilities, including requiring recall or withdrawal of the product from the market or suspension of manufacturing.

If we fail to comply with applicable regulatory requirements following approval of our product candidates, a regulatory agency may:

- issue a warning letter asserting that we are in violation of the law;
- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve a pending NDA or supplements to an NDA submitted by us;
- seize product; or
- refuse to allow us to enter into supply contracts, including government contracts.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response and could generate negative publicity. The occurrence of any event or penalty described above may inhibit our ability to commercialize any future approved products and generate revenues.

Even if we obtain FDA approval for Zalviso or any of our product candidates in the United States, we may never obtain approval for or commercialize our products outside of the United States, which would limit our ability to realize their full market potential.

In order to market any products outside of the United States, we or our collaborators, including Grünenthal in Europe, must establish and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. For example, in October 2012, we received notice from the EMA that Zalviso was eligible for centralized European review, and in July 2014, Grünenthal filed a Marketing Authorization Application, or MAA, for Zalviso under the centralized procedure in the EU. In the fourth quarter of 2014, Grünenthal received 120-day questions from the EMA per the EMA's standard regulatory review process. We have been working with Grünenthal towards the submission of the response to the Day 120 questions. Grünenthal is currently working to complete the response and submit it to the EMA by the end of March 2015. As noted elsewhere, in March 2015, we received correspondence from the FDA stating that an additional clinical study is needed for Zalviso in order to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We do not know what impact, if any, this may have on the EMA's

regulatory review process of the Zalviso MAA. The EMA may at anytime during its review process find issues with the MAA, and may require additional activities and data, including additional clinical trials, in order to support its review of the Zalviso MAA. Outside of Europe, clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval processes vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking foreign regulatory approval could result in difficulties and costs for us and require additional non-clinical trials or clinical trials, which could be costly and time consuming. Regulatory requirements can vary widely from country-to-country and could delay or prevent the introduction of our products in those countries. Our current clinical trial data may not be sufficient to support marketing approval in all territories. In addition, we lack the personnel, expertise and capabilities to gain regulatory approval of our product candidates on a global basis without a collaboration partner. If Zalviso is approved for sale in Europe, we will rely on Grünenthal to commercialize it. While Grünenthal does have products approved in international markets, we do not have any product candidates approved for sales in any jurisdiction, including international markets, and we do not have experience in obtaining regulatory approval in international markets. Grünenthal's experience in international markets does not guarantee regulatory approval or compliance with regulatory requirements in international markets. If we fail to comply with regulatory requirements in international markets or to obtain and maintain required approvals, or if regulatory approvals in international markets are delayed, our target market will be reduced and our ability to realize the full market potential of our products will be harmed.

Zalviso and our other product candidates will require Risk Evaluation and Mitigation Strategies.

The FDA Amendments Act of 2007 implemented safety-related changes to product labeling and requires the adoption of REMS. Our product candidates, if approved, will require REMS. The REMS may include requirements for special labeling or medication guides for patients, special communication plans to health care professionals and restrictions on distribution and use. While we have received pre-clearance from the FDA regarding certain aspects of the proposed required REMS for Zalviso, we cannot predict the final REMS to be required as part of any FDA approval of Zalviso. Depending on the extent of the REMS requirements, the launch may be delayed, the costs to commercialize Zalviso may increase substantially and the potential commercial market could be restricted. ARX-02, ARX-03 and ARX-04, if approved, will also require REMS programs that may significantly increase our costs to commercialize these product candidates. Furthermore, risks of sufentanil that are not adequately addressed through proposed REMS for our future product candidates, if approved, may also prevent or delay their approval for commercialization.

Recently enacted and future legislation may increase the difficulty and cost for us to commercialize Zalviso and any of our product candidates that may obtain commercial approval in the future, and affect the prices we may obtain.

In the United States and some foreign jurisdictions, the legislative landscape continues to evolve. There have been a number of legislative and regulatory changes and proposed changes regarding healthcare systems that could prevent or delay marketing approval of our product candidates, including Zalviso, restrict or regulate post-approval activities and affect our ability to profitably sell any products for which we obtain marketing approval.

In the United States, the Health Care Reform Law (as defined below) was enacted in an effort to, among other things, broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, impose new taxes and fees on the health industry and impose additional health policy reforms. Aspects of the Health Care Reform Law that may impact our business include:

- extension of manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- a deductible 2.3% excise tax, with limited exceptions, on the sale of certain medical devices by the manufacturer of the device;
- new methodologies by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted or injected, and for drugs that are line extensions;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for certain individuals with income at or below 133.0% of the Federal Poverty Level beginning in 2014, thereby potentially increasing manufacturers' Medicaid rebate liability;
- expansion of healthcare fraud and abuse laws, including the federal False Claims Act and the federal Anti-Kickback Statute, new government investigative powers and enhanced penalties for non-compliance;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians;

- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research; and

- creation of the Independent Payment Advisory Board which has authority to recommend certain changes to the Medicare program that could result in reduced payments for prescription drugs.

The Health Care Reform Law has the potential to substantially change health care financing and delivery by both governmental and private insurers, and may also increase our regulatory burdens and operating costs.

In addition, other legislative changes have been proposed and adopted in the United States since the Health Care Reform Law was enacted. On August 2, 2011, the Budget Control Act of 2011 created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This included aggregate reductions of Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013 and will stay in effect through 2024 unless additional Congressional action is taken. On January 2, 2013, the American Tax Payer Relief Act was signed into law, which, among other things, further reduced Medicare payments to several providers, including hospitals.

Moreover, the recently enacted Drug Supply Chain Security Act of 2013, imposes new obligations on manufacturers of pharmaceutical products, among others, related to product tracking and tracing. Among the requirements of this new legislation, manufacturers will be required to provide certain information regarding the drug product to individuals and entities to which product ownership is transferred, label drug product with a product identifier, and keep certain records regarding the drug product.

Legislative and regulatory proposals have been made to expand post-approval requirements and further restrict sales and promotional activities for pharmaceutical products. We are not sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be.

We expect that additional healthcare reform measures will be adopted within and outside the United States in the future, any of which could negatively impact our business. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare may adversely affect the demand for any drug products for which we may obtain regulatory approval, our ability to set a price that we believe is fair for our products, our ability to obtain coverage and reimbursement approval for a product, our ability to generate revenues and achieve or maintain profitability, and the level of taxes that we are required to pay.

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Risks Related to Our Financial Condition and Need for Additional Capital

We have incurred significant losses since our inception, anticipate that we will continue to incur significant losses in 2015 and may continue to incur losses for the foreseeable future.

Since our inception in 2005, we have focused primarily on development of our lead product candidate, Zalviso. We have three additional product candidates in development, the Sufentanil Sublingual Tablet BTP Management System, or ARX-02, the Sufentanil/Triazolam Sublingual Tablet, or ARX-03, and Sufentanil Sublingual Single-Dose Acute Pain Tablet, or ARX-04. We have incurred significant net losses in each year since our inception in July 2005, and as of December 31, 2014, we had an accumulated deficit of $178.8 million.

We have devoted most of our financial resources to research and development, including our non-clinical development activities and clinical trials. To date, we have financed our operations primarily through the sale of equity securities, debt, government grant funding and proceeds from our collaboration with Grünenthal. The size of our future net losses will depend, in part, on the rate of future expenditures and our ability to generate revenues. We expect to continue to incur substantial expenses as we continue our research and development activities for our product candidates, including addressing issues raised by the FDA related to regulatory review of Zalviso, as well as to support manufacturing and supply for potential approval of Zalviso in Europe, in connection with our collaboration with Grünenthal. To date, none of our product candidates have been commercialized, and if Zalviso or our other product candidates are not successfully developed or commercialized, or if revenues are insufficient following marketing approval, we will not achieve profitability and our business may fail. Our success is also dependent on obtaining regulatory approval to market our product candidates outside of the United States through current and future collaborations which may not materialize or prove to be successful.

We have never generated product revenue and may never be profitable.

Our ability to generate revenue from commercial sales and achieve profitability depends on our ability, alone or with collaborators, to successfully complete the development of, obtain the necessary regulatory approvals for, and commercialize our product candidates. We may never generate revenues from sales of Zalviso or our other product candidates in the United States. While we have a collaboration with Grünenthal for potential commercialization of Zalviso in Europe and Australia, we may never achieve the development milestones associated with the collaboration, and Grünenthal may never achieve regulatory approval or recognize commercial sales of Zalviso, for which we would receive sales milestone payments and product royalties. In addition, we do not anticipate generating revenues from our other product candidates for the foreseeable future, if ever. Our ability to generate future revenues from product sales depends heavily on our success in:

- obtaining and maintaining regulatory approval for Zalviso;

- launching and commercializing Zalviso, including building or contracting out, a hospital-directed sales force in the United States and collaborating with third parties internationally, including Grünenthal, which may require additional funding; and

- completing the clinical development of, obtaining regulatory approval for, and launching and commercializing ARX-04, ARX-02 and ARX-03, which may require additional funding or corporate partnership resources.

Because of the numerous risks and uncertainties associated with pharmaceutical product development and the regulatory environment, we are unable to predict the timing or amount of increased expenses, or when, or if, we will be able to achieve or maintain profitability. Our expenses could increase beyond expectations if we are delayed in receiving regulatory approval, or in launching Zalviso, or if we are required by the FDA to complete activities in addition to those we currently anticipate or have already completed.

Even if one or more of our product candidates is approved for commercial sale, we anticipate incurring significant costs associated with commercializing any approved product candidate. Even if we are able to generate revenues from the sale of any future approved products, we may not become profitable and may need to obtain additional funding to continue operations.

We have a limited operating history that may make it difficult to predict our future performance or evaluate our business and prospects.

We were incorporated in 2005. Since inception, our operations have been primarily limited to organizing and staffing our company, developing our technology and undertaking pharmaceutical development and clinical trials for our product candidates, and more recently, preparing for the commercialization of Zalviso. We have not yet obtained regulatory approval of any of our product candidates, including Zalviso. Consequently, any predictions that are made about our future success, or viability, or evaluation of our business and prospects, may not be accurate.

We will require additional capital and may be unable to raise capital, which would force us to delay, reduce or eliminate our product development programs and could cause us to cease operations.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. We expect to incur significant expenditures in connection with our ongoing activities, including conductingARX-04 Phase 3 clinical trials, development activities associated with Zalviso to respond to issues raised by the FDA and other research and development activities to advance our product candidates. While we believe we have sufficient capital resources to continue planned operations through at least the first quarter of 2016, we may need additional capital to continue development of Zalviso, ARX-04 and our other product candidates and will need additional capital to potentially pursue commercialization of any of our product candidates.

Future events and circumstances, including those beyond our control, may cause us to consume capital more rapidly than we currently anticipate. For example, in March 2015, we received correspondence from the FDA stating that we needed to complete an additional clinical study. Such development activities can be time consuming and costly. Even if we have sufficient resources to complete an additional clinical study for Zalviso, and we may not depending on the size, scope and potential outcome of the trial, regulatory review for Zalviso, and a potential launch of a commercial product is expensive. In addition, commercialization costs for Zalviso in the United States may be significantly higher than estimated. We may experience technical difficulties in our commercialization efforts or otherwise, which could substantially increase the costs of commercialization. Revenues may be lower than expected and accordingly costs to produce such revenues may exceed those revenues. We will need to seek additional capital to continue operations. Such capital demands could be substantial. To raise capital, we may seek to sell additional equity or debt securities, monetize certain assets including future royalty streams and milestones, obtain a credit facility, or enter into product development, license or distribution agreements with third parties, or divest one or more of our product candidates. Such arrangements may not be available on favorable terms, if at all. Furthermore, any product development, licensing, distribution or sale agreements that we enter into may require us to relinquish valuable rights. We may not be able to obtain sufficient additional funding or enter into a strategic transaction in a timely manner. If adequate funds are not available, we would be required to reduce our workforce, delay, reduce the scope of, or eliminate, one or more of our research and development programs in advance of the date on which we exhaust our cash resources to ensure that we have sufficient capital to meet our obligations and continue on a path designed to preserve stockholder value.

Securing additional financing may divert our management from our day-to-day activities, which may adversely affect our ability to develop and commercialize our product candidates. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we are unable to raise additional capital when required or on acceptable terms, we may be required to:

- significantly delay, scale back or discontinue the development or commercialization of our product candidates;
-

seek additional corporate partners for Zalviso on terms that might be less favorable than might otherwise be available; or

- relinquish, or license on unfavorable terms, our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves.

We may sell additional equity or debt securities to fund our operations, which may result in dilution to our stockholders and impose restrictions on our business.

In order to raise additional funds to support our operations, we may sell additional equity or debt securities which would result in dilution to our stockholders or impose restrictive covenants that may adversely impact our business. The sale of additional equity or convertible debt securities would result in the issuance of additional shares of our capital stock and dilution to all of our stockholders. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to expand our operations or otherwise capitalize on our business opportunities, our business, financial condition and results of operations could be materially adversely affected and we may not be able to meet our debt service obligations.

We might be unable to service our existing debt due to a lack of cash flow and might be subject to default.

In December 2013, we entered into an amended loan and security agreement, or the Amended Loan Agreement, with Hercules Technology II, L.P. and Hercules Technology Growth Capital, Inc., collectively referred to as Hercules, under which we may borrow up to $40.0 million in three tranches, represented by secured convertible promissory notes. We drew the first tranche of $15.0 million at the closing of the new credit facility and the second tranche of $10 million on June 16, 2014. We will not have access to the third tranche of up to $15.0 million under the current agreement, as it is conditioned upon FDA approval to market Zalviso in the United States by August 1, 2015. We begin making principal payments in April 2015. The scheduled maturity date is October 1, 2017.

We granted Hercules a first priority security interest in substantially all of our assets, with the exception of our intellectual property, where the security interest is limited to proceeds of intellectual property if it is licensed or sold.

If we do not make the required payments when due, either at maturity, or at applicable installment payment dates, or if we breach the agreement or become insolvent, Hercules could elect to declare all amounts outstanding, together with accrued and unpaid interest and penalty, to be immediately due and payable. Additional capital may not be available on terms acceptable to us, or at all. Even if we were able to repay the full amount in cash, any such repayment could leave us with little or no working capital for our business. If we are unable to repay those amounts, Hercules will have a first claim on our assets pledged under the Amended Loan Agreement. If Hercules should attempt to foreclose on the collateral, it is unlikely that there would be any assets remaining after repayment in full of such secured indebtedness. Any default under the Amended Loan Agreement and resulting foreclosure would have a material adverse effect on our financial condition and our ability to continue our operations.

We may not secure additional funding from the Department of Defense for advancement ARX-04.

In the latter half of 2014, we were notified by the DoD that we had been offered a contract to provide partial funding to support further development of ARX-04. We intend to initiate our first planned Phase 3 trial for ARX-04 by the end of March 2015, but we have postponed other development activities for ARX-04 until we can finalize contract negotiations with the DoD. While we still anticipate receiving some funding to support ARX-04 from the DoD, we may not receive funding in a timely manner, we may receive funding at a level significantly less than our proposal, or we may not receive funding at all. In addition, even if we receive funding, such funding will be subject to audit by the DoD to ensure adherence to specific guidance, policies and procedures. We currently do not have all such required policies and procedures in place as we have never received a government contract before. Even if we are able to implement all required procedures, the DoD may find deficiencies during the course of an audit which could jeopardize, or even eliminate, continued funding from the DoD, as well as require repayment of any funds they had provided us since inception of the contract. Continued delay from the DoD or lack of ARX-04 supportive funding, may adversely affect our ability to continue to advance the development of ARX-04. For example, the initiation of the second planned Phase 3 trial for ARX-04 is contingent on DoD funding.

Risks Related to Our Reliance on Third Parties

We rely on third party manufacturers to produce our preclinical and clinical drug supplies and intend to rely on third parties to produce commercial supplies of any approved product candidates.

Reliance on third party manufacturers entails many risks including:

- the inability to meet our product specifications and quality requirements consistently;
- a delay or inability to procure or expand sufficient manufacturing capacity;
- manufacturing and product quality issues related to scale-up of manufacturing;
- costs and validation of new equipment and facilities required for scale-up;
- a failure to comply with cGMP and similar foreign standards;
- the inability to negotiate manufacturing agreements with third parties under commercially reasonable terms;
- termination or nonrenewal of manufacturing agreements with third parties in a manner or at a time that is costly or damaging to us;
- the reliance on a limited number of sources, and in some cases, single sources for product components, such that if we are unable to secure a sufficient supply of these product components, we will be unable to manufacture and sell our product candidates in a timely fashion, in sufficient quantities or under acceptable terms;
- the lack of qualified backup suppliers for those components that are currently purchased from a sole or single source supplier;
- operations of our third party manufacturers or suppliers could be disrupted by conditions unrelated to our business or operations, including the bankruptcy of the manufacturer or supplier;
- carrier disruptions or increased costs that are beyond our control; and
- the failure to deliver our products under specified storage conditions and in a timely manner.

Any of these events could lead to stock outs, inability to successfully commercialize our products, clinical trial delays, or failure to obtain regulatory approval. Some of these events could be the basis for FDA action, including injunction, recall, seizure, or total or partial suspension of production.

We rely on limited sources of supply for the drug component of our product candidates and any disruption in the chain of supply may cause delay in developing and commercializing our product candidates.

Currently, we use two established suppliers of sufentanil citrate for our tablets. We only have one supplier qualified for our manufacture of Zalviso. For each product candidate, only one of the two suppliers will be qualified as a vendor with the FDA. If supply from the approved vendor is interrupted, there could be a significant disruption in commercial supply. The alternative vendor would need to be qualified through an NDA supplement which could result in further delay. The FDA or other regulatory agencies outside of the United States may also require additional trials if a new sufentanil supplier is relied upon for commercial production.

Manufacture of sufentanil sublingual tablets requires specialized equipment and expertise.

Ethanol, which is used in the manufacturing process for our sufentanil sublingual tablets, is flammable, and sufentanil is a highly potent, Schedule II compound. These factors necessitate the use of specialized equipment and facilities for manufacture of sufentanil sublingual tablets. There are a limited number of facilities that can accommodate our manufacturing process and we need to use dedicated equipment throughout development and commercial manufacturing to avoid the possibility of cross-contamination. If our equipment breaks down or needs to be repaired or replaced, it may cause significant disruption in clinical or commercial supply, which could result in delay in the process of obtaining approval for or sale of our products. Furthermore, we are using one manufacturer to produce our sufentanil sublingual tablets and have not identified a back-up commercial facility to date. Any problems with our existing facility or equipment, including ongoing expansion, may delay or impair our ability to complete our clinical trials or commercialize our product candidates and increase our cost.

Manufacturing issues may arise that could delay or increase costs related to product and regulatory approval, and commercialization.

As we scale up manufacturing of our product candidates and conduct required stability testing, product, packaging, equipment and process-related issues may require refinement or resolution in order to obtain regulatory approval for commercial marketing. In the past we have identified impurities in our product candidates. In the future we may identify significant impurities, which could result in increased scrutiny by the regulatory agencies, delays in clinical program and regulatory approval, increases in our operating expenses, or failure to obtain or maintain approval for our products.

Early development and clinical trial manufacturing of Zalviso was conducted at Patheon in Toronto, Canada. Because the DEA requires that sufentanil be manufactured in the United States if our product candidates are marketed in the United States, we transferred our manufacturing capability in the third quarter of 2011 from Patheon in Toronto, Canada to Patheon's production facility in Cincinnati, Ohio, where we have built out a suite within their existing buildings that will serve as a manufacturing facility for clinical and commercial supplies of sufentanil sublingual tablets. Late stage development and manufacture of registration stability lots, which were utilized in clinical trials, were manufactured at Patheon, Cincinnati. However, we have not yet produced commercial supplies at this facility and we may encounter difficulties in production at the new facility, which may adversely affect our clinical and commercial plans.

In January 2013, we entered into a Manufacturing Services Agreement, or the Services Agreement, with Patheon under which Patheon has agreed to manufacture, supply, and provide certain validation and stability services with respect to Zalviso for potential sales in the United States, Canada, Mexico and other countries, subject to agreement by the parties to any additional fees for such other countries. There is no guarantee that Patheon's services will be satisfactory or that they will continue to meet the strict regulatory guidelines of the FDA or other regulatory agencies.

In addition, in January 2013, we entered into an Amended and Restated Capital Expenditure and Equipment Agreement, or the Amended Capital Agreement, with Patheon, relating to the manufacture of sufentanil sublingual tablets. Under the terms of the Amended Capital Agreement, we have made and may make certain future modifications to Patheon's Cincinnati facility.

If Patheon cannot provide us with an adequate supply of sufentanil sublingual tablets, we may be required to pursue alternative sources of manufacturing capacity. Switching or adding commercial manufacturing capability can involve substantial cost and require extensive management time and focus, as well as additional regulatory filings. In addition, there is a natural transition period when a new manufacturing facility commences work. As a result, delays may occur, which can materially impact our ability to meet our desired commercial timelines, thereby increasing our costs and reducing our ability to generate revenue.

The facilities of any of our future manufacturers of sufentanil-containing sublingual tablets must be approved by the FDA before commercial distribution from such manufacturers occurs. We do not fully control the manufacturing process of sufentanil sublingual tablets and are completely dependent on these third party manufacturing partners for compliance with the FDA's requirements for manufacture. In addition, although our third party manufacturers are well established commercial manufacturers, we are dependent on their continued adherence to cGMP manufacturing and acceptable changes to their process. If our manufacturers do not meet the FDA's strict regulatory requirements, they will not be able to secure FDA approval for their manufacturing facilities. If the FDA does not approve these facilities for the commercial manufacture of sufentanil sublingual tablets, we will need to find alternative suppliers, which would result in significant delays in obtaining FDA approval for Zalviso. These challenges may have a material adverse impact on our business, results of operations, financial condition and prospects.

Related to the Zalviso device, we have conducted multiple Design Validation, Software Verification and Validation, Reprocessing and Human Factors studies, and have manufactured for and completed Phase 3 clinical trials using the intended commercial device. As mentioned above, the CRL from the FDA contains a request for additional information on the Zalviso System to ensure proper use of the device. In March 2015, we received correspondence from the FDA stating that in addition to the bench testing and two Human Factors studies we have performed in response to the issues identified in the CRL, an additional clinical study is needed to assess the risk of inadvertent dispensing and overall risk of dispensing failures. We have made modifications to the design of the Zalviso device subsequent to the original submission of the Zalviso NDA, which we plan to include as a part of any resubmitted NDA. If we are required to further modify the Zalviso device, we may incur higher costs and experience delays in the approval and ultimate commercialization of Zalviso. Furthermore, if the identified changes to the device are substantial, the FDA may require us to perform further clinical trials or studies in order to approve the device for commercial use.

We have manufactured Zalviso devices and supplies on a small scale, including those needed for our Phase 3 clinical trials. We, however, have not yet manufactured Zalviso devices and supplies on a large scale, for commercial purposes. We will not begin commercial scale production of the device until after approval by the FDA. We will continue to rely on contract manufacturers, component fabricators and third party service providers to produce the necessary Zalviso devices for the commercial marketplace. We currently outsource manufacturing and packaging of the controller, dispenser and cartridge components of the Zalviso device to third parties and intend to continue to do so. These purchases and components were made and will continue to be made utilizing short-term purchase agreements and we may not be able to enter into long-term agreements for commercial supply of Zalviso devices with third party manufacturers, or may be unable to do so on acceptable terms. In addition, we may encounter production issues with our current or future contract manufacturers and other third party service providers, including the quality of the components produced, their inability to meet demand or other unanticipated delays including the scale-up and automation process, which would adversely impact our ability to supply our customers with Zalviso, if approved.

We may not be able to establish additional sources of supply for device manufacture. Such suppliers are subject to FDA regulations requiring that materials be produced under cGMPs or Quality System Regulations, or QSR, and subject to ongoing inspections by regulatory agencies. Failure by any of our suppliers to comply with applicable regulations may result in delays and interruptions to our product candidate supply while we seek to secure another supplier that meets all regulatory requirements.

Reliance on third party manufacturers entails risks to which we would not be subject if we manufactured the product candidates ourselves, including the possible breach of the manufacturing agreements by the third parties because of factors beyond our control; and the possibility of termination or nonrenewal of the agreements by the third parties because of our breach of the manufacturing agreement or based on their own business priorities.

We rely on third parties to conduct, supervise and monitor our clinical trials, and if those third parties perform in an unsatisfactory manner, it may harm our business.

We utilized contract research organizations, or CROs, for the conduct of our Phase 3 clinical trials of Zalviso, the Phase 2 clinical trial of ARX-04, and our ongoing Phase 3 clinical program for ARX-04. We rely on CROs, as well as clinical trial sites, to ensure the proper and timely conduct of our clinical trials and document preparation. While we have agreements governing their activities, we have limited influence over their actual performance. We have relied and plan to continue to rely upon CROs to monitor and manage data for our clinical programs for Zalviso and our other product candidates, as well as the execution of nonclinical and clinical trials. We control only certain aspects of our CROs' activities. Nevertheless, we are responsible for ensuring that each of our trials is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards and our reliance on the CROs does not relieve us of our regulatory responsibilities.

We, and our CROs, are required to comply with the FDA's current good clinical practices, or cGCPs, which are regulations and guidelines enforced by the FDA for all of our product candidates in clinical development. The FDA enforces these cGCPs through periodic inspections of trial sponsors, principal investigators and clinical trial sites. If we or our CROs fail to comply with applicable cGCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA may require us to perform additional clinical trials before approving our marketing applications. Upon inspection, the FDA may determine that our clinical trials do not comply with cGCPs. Accordingly, if our CROs or clinical trial sites fail to comply with these regulations, we may be required to repeat clinical trials, which would delay the regulatory process.

Our CROs are not our employees, and we cannot control whether or not they devote sufficient time and resources to our ongoing clinical and nonclinical programs. These CROs may also have relationships with other commercial entities, including our competitors, for whom they may also be conducting clinical trials, or other drug development activities which could harm our competitive position. We face the risk of potential unauthorized disclosure or misappropriation of our intellectual property by CROs, which may allow our potential competitors to access our proprietary technology. If our CROs do not successfully carry out their contractual duties or obligations, fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements, or for any other reasons, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain regulatory approval for, or successfully commercialize Zalviso, or our other product candidates. As a result, our financial results and the commercial prospects for Zalviso and any future product candidates for which we may obtain approval would be harmed, our costs could increase, and our ability to generate revenues could be delayed.

Risks Related to Commercialization of Our Product Candidates

The commercial success of Zalviso and our other product candidates, if approved, will depend upon the acceptance of these products by the medical community, including physicians, nurses, patients, and pharmacy and therapeutics committees.

The degree of market acceptance of Zalviso and our other product candidates, if approved, will depend on a number of factors, including:

- demonstration of clinical safety and efficacy compared to other products;
- the relative convenience, ease of administration and acceptance by physicians, patients and health care payors;
- the use of Zalviso for the management of moderate-to-severe acute pain in the hospital setting for patient types that were not specifically studied in our Phase 3 trials;
- the prevalence and severity of any AEs or SAEs;
- overcoming the perception of sufentanil as a potentially unsafe drug due to its high potency;
- limitations or warnings contained in the FDA-approved label for Zalviso;
- restrictions or limitations placed on Zalviso due to the REMS;
- availability of alternative treatments;
- existing capital investment by hospitals in IV PCA technology;
- pricing and cost-effectiveness;

- the effectiveness of our or any future collaborators' sales and marketing strategies;

- our ability to obtain hospital formulary approval;

- our ability to obtain and maintain sufficient third party coverage or reimbursement.

If Zalviso is approved, but does not achieve an adequate level of acceptance by physicians, nurses, patients and pharmacy and therapeutics committees, or P&T Committees, we may not generate sufficient revenue from Zalviso and we may not become or remain profitable.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unable to generate any revenue.

In order to commercialize any products that may be approved, including Zalviso, we must build our internal sales, marketing, distribution, managerial and other capabilities or make arrangements with third parties to perform these services. We are currently building out our commercial capabilities, including internal sales, marketing, supply chain and medical affairs departments and are active in the recruitment process; however, if delays in, or the inability to, recruit and hire the appropriate individuals occurs, the potential success of approved product candidates, including Zalviso, could be adversely affected. In addition, we plan to enter into agreements with third parties for the distribution of approved product candidates, including Zalviso; however, if there are delays in establishing such relationships or those third parties do not perform as expected, our ability to effectively distribute products would suffer.

We have entered into a collaboration with Grünenthal for the commercialization of Zalviso in Europe and Australia and intend to enter into additional strategic partnerships with third parties to commercialize our product candidates outside of the United States. We may also consider the option to enter into strategic partnerships for our product candidates in the United States. We face significant competition in seeking appropriate strategic partners, and these strategic partnerships can be intricate and time consuming to negotiate and document.

We may not be able to negotiate future strategic partnerships on acceptable terms, or at all. We are unable to predict when, if ever, we will enter into any strategic partnerships because of the numerous risks and uncertainties associated with establishing strategic partnerships. Our strategy for Zalviso is to develop a hospital-directed sales force to promote the product to healthcare professionals in the United States. Our current or future collaboration partners, if any, may not dedicate sufficient resources to the commercialization of Zalviso or our other product candidates, if approved, or may otherwise fail in their commercialization due to factors beyond our control. If we are unable to establish effective collaborations to enable the sale of Zalviso or our product candidates, if approved, to healthcare professionals and in geographical regions, including the United States, that will not be covered by our own marketing and sales force, or if our potential future collaboration partners do not successfully commercialize our product candidates, if approved, our ability to generate revenues from product sales will be adversely affected.

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If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate sufficient product revenue and may not become profitable. We will be competing with many companies that currently have extensive and well-funded marketing and sales operations. Without an internal team or the support of a third party to perform marketing and sales functions, we may be unable to compete successfully against these more established companies.

A key part of our business strategy is to establish collaborative relationships to commercialize and fund development and approval of our product candidates, particularly outside of the United States. We may not succeed in establishing and maintaining collaborative relationships, which may significantly limit our ability to develop and commercialize our products successfully, if at all.

We will need to establish and maintain successful collaborative relationships to obtain international sales, marketing and distribution capabilities for our product candidates. The process of establishing and maintaining collaborative relationships is difficult, time-consuming and involves significant uncertainty, including:

- our partners may seek to renegotiate or terminate their relationships with us due to unsatisfactory clinical or regulatory results, manufacturing issues, a change in business strategy, a change of control or other reasons;
- our contracts for collaborative arrangements are terminable at will on written notice and may otherwise expire or terminate and we may not have alternatives available to achieve the potential for our products in those territories or markets;
- our partners may choose to pursue alternative technologies, including those of our competitors;
- we may have disputes with a partner that could lead to litigation or arbitration;
- we have limited control over the decisions of our partners and they may change the priority of our programs in a manner that would result in termination of the agreement or add significant delays to the partnered program;
- our ability to generate future payments and royalties from our partners depends upon the abilities of our partners to establish the safety and efficacy of our drug candidates, obtain regulatory approvals and our ability to successfully manufacture and achieve market acceptance of products developed from our product candidates;
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we or our partners may fail to properly initiate, maintain or defend our intellectual property rights, where applicable, or a party may use our proprietary information in such a way as to invite litigation that could jeopardize or potentially invalidate our proprietary information or expose us to potential liability;

- our partners may not devote sufficient capital or resources towards our product candidates; and

- our partners may not comply with applicable government regulatory requirements necessary to successfully market and sell our products.

If any collaborator fails to fulfill its responsibilities in a timely manner, or at all, any research, clinical development, manufacturing or commercialization efforts pursuant to that collaboration could be delayed or terminated, or it may be necessary for us to assume responsibility for expenses or activities that would otherwise have been the responsibility of our collaborator. If we are unable to establish and maintain collaborative relationships on acceptable terms or to successfully and timely transition terminated collaborative agreements, we may have to delay or discontinue further development of one or more of our product candidates, undertake development and commercialization activities at our own expense or find alternative sources of capital.

If we obtain approval to commercialize our products outside of the United States, a variety of risks associated with international operations could materially adversely affect our business.

If any of our product candidates, including Zalviso, are approved for commercialization, we intend to enter into agreements with third parties to market our product candidates outside the United States, which may require us to supply products to the third party such as our existing collaboration with Grünenthal for marketing Zalviso in European countries and Australia. We may be subject to additional risks related to entering into international business relationships, including:

- different regulatory requirements for drug approvals in foreign countries;

- reduced protection for intellectual property rights;

- unexpected changes in tariffs, trade barriers and regulatory requirements;

- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- foreign taxes, including withholding of payroll taxes;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, and other obligations incident to doing business in another country;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geopolitical actions, including war and terrorism, or natural disasters including earthquakes, typhoons, floods and fires.

If we, or current and potential partners, are unable to compete effectively, our product candidates may not reach their commercial potential.

The market for Zalviso and our other product candidates is characterized by intense competition and cost pressure. If our product candidates obtain FDA approval, they will compete with a number of existing and future pharmaceuticals and drug delivery devices developed, manufactured and marketed by others. We or our current and potential partners will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies.

We believe that Zalviso would compete with a number of opioid-based and non-opioid based treatment options that are currently available, as well as some products that are in development. The hospital market for opioids for moderate-to-severe acute pain is large and competitive. The primary competition for Zalviso is the IV PCA pump, which is widely used in the moderate-to-severe acute pain in the hospital setting. Leading manufacturers of IV PCA pumps include Hospira Inc. (recently acquired by Pfizer), CareFusion Corporation (recently purchased by Becton Dickinson & Co.), Baxter International Inc., Curlin Medical, Inc. and Smiths Medical. The most common opioids used to treat moderate-to-severe acute pain are morphine, hydromorphone and fentanyl, all of which are available as generics both from generic product manufacturers as well as from compounding pharmacies. In addition, branded manufacturers (e.g., Hospira, Inc.) sell pre-filled glass syringes of morphine to fit their IV PCA pump systems.

Also available on the market is the Avancen Medication on Demand, or MOD, Oral PCA Device developed by Avancen MOD Corporation. Oral opioids and other agents can be used in this system. In addition, oral and parenteral opioids administered by the nurse are used to manage moderate-to-severe acute pain in the hospital, available both as branded and generic products. These oral opioids, as well as IV PCA opioids, are often used as part of a multi-modal analgesia approach, which might include, in addition to the opioid, NSAIDs, acetaminophen, gabapentanoids and other pain management modalities, as well as local anesthetic blocks to provide temporary blockage of the pain signal, either as a wound infiltration agent or as a nerve block. These local anesthetic agents such as bupivacaine can also utilize controlled-release formulations such as Pacira's EXPAREL. In addition, Halyard Health, Inc. has developed a medical device, the ON-Q* Pain Relief System, which is a non-narcotic elastomeric pump that automatically and continuously delivers a regulated flow of local anesthetic to a patient's surgical site or in close proximity to nerves, providing targeted pain relief for up to five days. Additional potential competitors for Zalviso include products in development, including the fentanyl iontophoretic transdermal system, IONSYS, originally developed by ALZA Corporation and Ortho-McNeil Pharmaceutical, Inc., both Johnson & Johnson subsidiaries, and currently under development by The Medicines Company. The Medicines Company has reported that IONSYS has a PDUFA date of April 30, 2015. If approved on this date, IONSYS may be marketed prior to the potential approval of Zalviso which may provide a first-to-market advantage for IONSYS. Cara Therapeutics is developing a kappa opioid agonist, CR845, as an IV agent for the management of post-operative moderate-to-severe pain. Trevena is developing TRV130, an intravenous G protein biased ligand that targets the mu opioid receptor for the treatment of moderate-to-severe acute pain where intravenous therapy is preferred, with a clinical development focus in acute postoperative pain. In January 2015, Trevena initiated a Phase 2b clinical study of TRV130. Recro Pharma is developing an intranasal form of dexmedetomidine as a potential agent for the management of post-operative pain. Finally, Innocoll is developing XARACOLL a controlled-release resorbable implant containing bupivacaine, and Durect has been developing POSIDUR, a controlled-release bupivacaine product candidate utilizing Durect's SABER technology.

Our potential competitors for ARX-02 include products approved in the United States for cancer breakthrough pain, including: ACTIQ and FENTORA, currently manufactured by Teva Pharmaceuticals; Onsolis, currently manufactured by BioDelivery Sciences International, Inc.; Abstral, currently manufactured by ProStrakan Group plc; Lazanda, currently manufactured by Depomed, Inc.; Subsys, currently manufactured by Insys Therapeutics, Inc., as well as products approved in Europe, including Instanyl, currently manufactured by Takeda Pharmaceuticals International GmbH. The active ingredient in all approved products for cancer breakthrough pain is fentanyl. Additional potential competitors for ARX-02 include products in late stage development for cancer breakthrough pain, such as: Fentanyl TAIFUN, currently manufactured by Akela Pharma, Inc.

We are not aware of any approved or development stage non-IV sedative/analgesic products that would present competition to ARX-03. In the future, there may be products developed or approved for this market which could directly compete
with ARX-03.

There are a wide variety of approved injectable and oral opioid products to treat moderate-to-severe acute pain, including IV opioids such as morphine, fentanyl, hydromorphone and meperidine or oral opioids such as oxycodone and hydrocodone. More specifically, competitors for ARX-04 in the emergency department are likely to include generic injectable intravenous opioids such as morphine, hydromorphone and fentanyl. In this environment, ARX-04 may also compete with other branded non-invasive products such as Eagalet's SPRIX, Hospira's DYLOJECT, Pfizers OXECTA, Depomed's NUCYNTA, BMS's COMBUNOX, Purdue's OXYFAST, Endo's OPANA, or generic oral opioids which have moderate to severe acute pain labeling. In the short-stay or ambulatory surgery segment, ARX-04 will likely compete with these products in addition to generic injectable local anesthetics such as bupivacaine, or branded formulations thereof, including Pacira's EXPAREL. Within the military environment, and in certain civilian settings, ARX-04 competitors may also include intramuscular morphine injections which are marketed by a variety of generic manufacturers.

It is possible that any of these competitors could develop or improve technologies or products that would render our product candidates obsolete or non-competitive, which could adversely affect our revenue potential. Key competitive factors affecting the commercial success of our product candidates are likely to be efficacy, safety profile, reliability, convenience of dosing, price and reimbursement.

Many of our potential competitors have substantially greater financial, technical and human resources than we do and significantly greater experience in the discovery and development of drug candidates, obtaining FDA and other regulatory approval of products and the commercialization of those products. Accordingly, our competitors may be more successful than we are in obtaining FDA approval for drugs and achieving widespread market acceptance. Our competitors' drugs or drug delivery systems may be more effective, have fewer adverse effects, be less expensive to develop and manufacture, or be more effectively marketed and sold than any product candidate we may commercialize. This may render our product candidates obsolete or non-competitive before we can recover our losses. We anticipate that we will face intense and increasing competition as new drugs enter the market and additional technologies become available. These entities may also establish collaborative or licensing relationships with our competitors, which may adversely affect our competitive position. Finally, the development of different methods for the treatment of moderate-to-severe acute pain or breakthrough pain could render Zalviso and ARX-02, respectively, non-competitive or obsolete. These and other risks may materially adversely affect our ability to attain or sustain profitable operations.

Hospital formulary approval may not be available, or could be subject to certain restrictions for Zalviso and our other product candidates, which could make it difficult for us to sell our products profitably.

Obtaining formulary approval can be an expensive and time-consuming process. We cannot be certain if and when we will obtain formulary approval to allow us to sell our products into our target markets. Failure to obtain timely formulary approval will limit our commercial success. If we are successful in obtaining formulary approval, we may need to complete evaluation programs whereby Zalviso is used on a limited basis for certain patient types. Hospitals may seek to obtain Zalviso devices at little or no cost during this evaluation period. Revenue generated from these hospitals during the evaluation period would be minimal. The evaluation period may last several months and there can be no assurance that use during the evaluation period will lead to formulary approval of Zalviso. Further, even successful formulary approval may be subject to certain restrictions based on patient type or hospital protocol. Failure to obtain timely formulary approval for Zalviso would materially adversely affect our ability to attain or sustain profitable operations.

Coverage and adequate reimbursement may not be available for Zalviso and our other product candidates, if approved, which could make it difficult for us, or our partners, to sell our products profitably.

Our ability to commercialize Zalviso or any of our other drug candidates, if approved, successfully will depend, in part, on the extent to which coverage and adequate reimbursement will be available from government payor programs at the federal and state levels authorities, including Medicare and Medicaid, private health insurers, managed care plans and other third-party payors.

No uniform policy requirement for coverage and reimbursement for drug products exists among third-party payors in the United States. Therefore, coverage and reimbursement can differ significantly from payor to payor. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be applied consistently or obtained in the first instance. Our inability to promptly obtain coverage and adequate reimbursement rates from third party payors could significantly harm our operating results, our ability to raise capital needed to commercialize any future approved drugs and our overall financial condition.

A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and other third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medical products. There have been a number of legislative and regulatory proposals to change the healthcare system in the United States and in some foreign jurisdictions that could affect our ability to sell our products profitably. These legislative and/or regulatory changes may negatively impact the reimbursement for our products, following approval. The availability of numerous generic pain medications may also substantially reduce the likelihood of reimbursement for Zalviso or any of our other product candidates, if approved. The application of user fees to generic drug products may expedite the approval of additional pain medication generic drugs. We expect to experience pricing pressures in connection with the sale of Zalviso and any of our other product candidates, if approved, due to the trend toward managed healthcare, the increasing influence of health maintenance organizations and additional legislative changes. If we fail to successfully secure and maintain reimbursement coverage for our products or are significantly delayed in doing so, we will have difficulty achieving market acceptance of our products and our business will be harmed.

Furthermore, market acceptance and sales of our product candidates, if approved, will depend on reimbursement policies and may be affected by future healthcare reform measures. Government authorities and third party payors, such as private health insurers, hospitals and health maintenance organizations, decide which drugs they will pay for and establish reimbursement levels. We cannot be sure that reimbursement will be available for Zalviso, or any of our other product candidates, if approved. Also, reimbursement amounts may reduce the demand for, or the price of, our products. If reimbursement is not available, or is available only to limited levels, we may not be able to successfully commercialize Zalviso, or any of our other product candidates, if approved.

Additionally, the regulations that govern marketing approvals, pricing, coverage and reimbursement for new drugs vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a product before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues able to be generated from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in Zalviso and/or our other drug candidates, even if those drug candidates obtain marketing approval.

The FDA and other regulatory agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses.

If we are found to have improperly promoted off-label uses of our product candidates, including Zalviso, if approved, we may become subject to significant liability. Such enforcement has become more common in the industry. The FDA and other regulatory agencies strictly regulate the promotional claims that may be made about prescription drug products. In particular, a product may not be promoted for uses that are not approved by the FDA or such other

regulatory agencies as reflected in the product's approved labeling. If we receive marketing approval for our product candidates for our proposed indications, physicians may nevertheless use our products for their patients in a manner that is inconsistent with the approved label, if the physicians personally believe in their professional medical judgment it could be used in such manner. However, if the FDA determines that our promotional materials or training constitutes promotion of an off-label use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our promotional or training materials to constitute promotion of an off-label use, which could result in significant civil, criminal and/or administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion from government-funded healthcare programs, such as Medicare and Medicaid, contractual damages, reputational harm, increased losses and diminished profits and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results. The FDA or other regulatory authorities could also request that we enter into a consent decree or a corporate integrity agreement, or seek a permanent injunction against us under which specified promotional conduct is monitored, changed or curtailed. If we cannot successfully manage the promotion of our product candidates, including Zalviso, if approved, we could become subject to significant liability, which would materially adversely affect our business and financial condition.

Guidelines and recommendations published by government agencies can reduce the use of our product candidates, including Zalviso, if approved.

Government agencies promulgate regulations and guidelines applicable to certain drug classes which may include the product candidates that we are developing. Recommendations of government agencies may relate to such matters as usage, dosage, route of administration and use of concomitant therapies. Regulations or guidelines suggesting the reduced use of certain drug classes which may include the product candidates that we are developing or the use of competitive or alternative products as the standard of care to be followed by patients and healthcare providers could result in decreased use of our product candidates, or negatively impact our ability to gain market acceptance and market share.

If we are unable to establish relationships with group purchasing organizations any future revenues or future profitability could be jeopardized.

Many end-users of pharmaceutical products have relationships with group purchasing organizations, or GPOs, whereby such GPOs provide such end-users access to a broad range of pharmaceutical products from multiple suppliers at competitive prices and, in certain cases, exercise considerable influence over the drug purchasing decisions of such end-users. Hospitals and other end-users contract with the GPO of their choice for their purchasing needs. We expect to derive revenue from end-user customers that are members of a small number of GPOs, if Zalviso is approved by the FDA. Establishing and maintaining strong relationships with these GPOs will require us to be a reliable supplier, remain price competitive and comply with FDA regulations. The GPOs with whom we have relationships may have relationships with manufacturers that sell competing products, and such GPOs may earn higher margins from these products or combinations of competing products or may prefer products other than ours for other reasons. If we are unable to establish or maintain our GPO relationships, sales of our products and revenue could be negatively impacted.

We intend to rely on a limited number of pharmaceutical wholesalers to distribute our product candidates, including Zalviso, if approved.

We intend to rely upon pharmaceutical wholesalers in connection with the distribution of our product candidates, including Zalviso, if approved. If we are unable to establish or maintain our business relationships with these pharmaceutical wholesalers on commercially acceptable terms, it could have a material adverse effect on our sales and may prevent us from achieving profitability.

Risks Related to Our Business Operations and Industry

Failure to comply with the Drug Enforcement Administration regulations, or the cost of compliance with these regulations, may adversely affect our business.

Our sufentanil-based products are subject to extensive regulation by the DEA, due to their status as scheduled drugs. Sufentanil is a Schedule II opioid, considered to present the highest risk of abuse. The manufacture, shipment, storage, sale and use of controlled substances are subject to a high degree of regulation, including security, record-keeping and reporting obligations enforced by the DEA and also by comparable state agencies. This high degree of regulation can result in significant costs in order to comply with the required regulations, which may have an adverse effect on the development and commercialization of our product candidates.

The DEA limits the availability and production of all Schedule II substances, including sufentanil, through a quota system. The DEA requires substantial evidence and documentation of expected legitimate medical and scientific needs before assigning quotas to manufacturers. Our contract manufacturers have applied annually for a quota on our behalf. We will need significantly greater amounts of sufentanil to implement our commercialization plans for any of our products that may be approved by the FDA in the future, including Zalviso. Any delay or refusal by the DEA in establishing the procurement quota or a reduction in our quota for sufentanil or a failure to increase it over time to meet anticipated increases in demand could delay or stop the clinical development of any of our product candidates or the commercial sale of any approved products. For example, recently, the DEA has denied our Zalviso contract manufacturer the commercial portion of our sufentanil quota. While it is common DEA practice to deny commercial quotas for product candidates not yet approved by the FDA, and we will request commercial quota as we approach FDA approval, there is no guarantee that we will receive such quota in a timely manner or sufficient quantity, which could delay our Zalviso commercial launch. This, in turn, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our relationships with investigators, health care professionals, consultants, commercial partners, third-party payors, hospitals, and other customers are subject to applicable anti-kickback, fraud and abuse and other healthcare laws, which could expose us to penalties.

Healthcare providers, physicians and others play a primary role in the recommendation and prescribing of any products for which we may obtain marketing approval. Our business operations and arrangements with investigators, healthcare professionals, consultants, commercial partners, hospitals, third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws. These laws may constrain the business or financial arrangements and relationships through which we research, market, sell and distribute the products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws, include, but are not limited to, the following:

- the federal healthcare Anti-Kickback Statute prohibits, among other things, persons or entities from knowingly and willfully soliciting, offering, receiving or paying any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service, for which payment may be made, in whole or in part, under federal healthcare programs such as Medicare and Medicaid;

- the federal civil and criminal false claims laws and civil monetary penalties, including civil whistleblower or qui tam actions, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, to the federal government, claims for payment or approval that are false or fraudulent or from knowingly making a false statement to improperly avoid, decrease or conceal an obligation to pay money to the federal government;

- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which, among other things, imposes criminal liability for knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private) and knowingly or willfully falsifying, concealing, or covering up by any trick or device a material fact or making any materially false statement in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters;

- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH, and their implementing regulations, impose certain obligations, including mandatory contractual terms, on covered healthcare providers, health plans and clearinghouses, as well as their respective business associates that perform services for them that involve the use, or disclosure of, individually identifiable health information, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;

- the federal transparency law, enacted as part of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Care Reform Law), and its

implementing regulations, requires certain manufacturers of drugs, devices, biologicals and medical supplies to report to the U.S. Department of Health and Human Services information related to payments and other transfers of value provided to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; and

- analogous state laws that may apply to our business practices, including but not limited to, state laws that require pharmaceutical companies to implement compliance programs and/or comply with the pharmaceutical industry's voluntary compliance guidelines; state laws that impose restrictions on pharmaceutical companies' marketing practices and require manufacturers to track and file reports relating to pricing and marketing information, which requires tracking and reporting gifts, compensation and other remuneration and items of value provided to healthcare professionals and entities.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations, agency guidance or case law involving applicable fraud and abuse or other healthcare laws. If our operations are found to be in violation of any of these or any other healthcare regulatory laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion from government funded healthcare programs, such as Medicare and Medicaid, contractual damages, reputational harm, increased losses and diminished profits and the curtailment or restructuring of our operations any of which could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses or divert our management's attention from the operation of our business.

Business interruptions could delay us in the process of developing our products and could disrupt our sales.

Our headquarters is located in the San Francisco Bay Area, near known earthquake fault zones and is vulnerable to significant damage from earthquakes. We are also vulnerable to other types of natural disasters and other events that could disrupt our operations. We do not carry insurance for earthquakes or other natural disasters and we may not carry sufficient business interruption insurance to compensate us for losses that may occur. Any losses or damages we incur could have a material adverse effect on our business operations.

Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on principal members of our executive team, the loss of whose services may adversely impact the achievement of our objectives. While we have entered into offer letters with each of our executive officers, any of them could leave our employment at any time, as all of our employees are "at will" employees. Recruiting and retaining other qualified employees for our business, including scientific and technical personnel, will also be critical to our success. There is currently a shortage of skilled executives in our industry, which is likely to continue. As a result, competition for skilled personnel is intense and the turnover rate can be high. We may not be able to attract and retain personnel on acceptable terms given the competition among numerous pharmaceutical companies for individuals with similar skill sets. In addition, failure to succeed in clinical trials, or delays in the regulatory approval process, may make it more challenging to recruit and retain qualified personnel. The inability to recruit or loss of the services of any executive or key employee might impede the progress of our research, development and commercialization objectives. On November 5, 2014, we announced that the Board of Directors has initiated a search to replace Richard King, our President and Chief Executive Officer. On December 15, 2014, we entered into a separation agreement with Mr. King, under the terms of which Mr. King will remain employed with AcelRx in his current position of CEO, until the earliest to occur of the following events: (i) the date that we hire a new Chief Executive Officer; or (ii) the Board requests his resignation; or (iii) March 31, 2015. Mr. King is currently serving as the Chief Commercial Officer as well. While Mr. King has agreed to continue as the President and Chief Executive Officer as per the terms of the separation agreement, and will continue to fill the Chief Commercial Officer role, there can be no assurance that a replacement will be found on a timely basis, or at all. Our inability to find a suitable replacement may have a detrimental impact on the organization and impede the progress of our research, development and commercialization objectives.

In the future, we will need to expand our organization, and we may experience difficulties in managing this growth, which could disrupt our operations.

As of December 31, 2014, we had 50 full-time employees. As our product candidates mature and approach potential commercialization, we plan to expand our employee base to increase our managerial, sales, marketing, operational, quality, engineering, financial and other resources and to hire more consultants and contractors. Current and future growth impose significant additional responsibilities on our management, including the need to identify, recruit, maintain, motivate and integrate additional employees, consultants and contractors. Also, our management may need to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. We may not be able to effectively manage the expansion of our operations, which may result in weaknesses in our infrastructure, give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. Our expected growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of additional product candidates. If our management is unable to effectively manage our growth, our expenses may increase more than expected, our ability to generate and/or grow revenues could be reduced, and we may not be able to implement our business strategy. Our future financial performance and our ability to commercialize Zalviso and our other product candidates and compete effectively will depend, in part, on our ability to effectively manage any future growth.

We face potential product liability, and, if successful claims are brought against us, we may incur substantial liability.

The use of our product candidates in clinical trials and the sale of any products for which we obtain marketing approval exposes us to the risk of product liability claims. Product liability claims might be brought against us by consumers, health care providers, pharmaceutical companies or others selling or otherwise coming into contact with our products. If we cannot successfully defend against product liability claims, we could incur substantial liability and costs. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- impairment of our business reputation;
- withdrawal of clinical trial participants;
- costs due to related litigation;
- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants;
- the inability to commercialize our product candidates; and
- decreased demand for our product candidates, if approved for commercial sale.

Our current product liability insurance coverage may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive and in the future we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. If and when we obtain marketing approval for our product candidates, we intend to expand our insurance coverage to include the sale of commercial products; however, we may be unable to obtain product liability insurance on commercially reasonable terms or in adequate amounts. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated adverse effects. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could adversely affect our results of operations
and business.

Our employees, independent contractors, principal investigators, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements and insider trading.

We are exposed to the risk that our employees, independent contractors, investigators, consultants, commercial partners and vendors may engage in fraudulent conduct or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct that violates (1) the laws of the FDA and similar foreign regulatory bodies, including those laws requiring the reporting of true, complete and accurate information to such regulatory bodies; (2) healthcare fraud and abuse laws of the United States and similar foreign fraudulent misconduct laws; and (3) laws requiring the reporting of financial information or data accurately. Specifically, the promotion, sales and marketing of healthcare items and services, as well as certain business arrangements in the healthcare industry are subject to extensive laws designed to prevent misconduct, including fraud, kickbacks, self-dealing and other abusive practices. These laws may restrict or prohibit a wide range of pricing, discounting, marketing, structuring and commission(s), certain customer incentive programs and other business arrangements generally. Activities subject to these laws also involve the improper use of information obtained in the course of patient recruitment for clinical trials. It is not always possible to identify and deter employee and other third-party misconduct. The precautions we take to detect and prevent inappropriate conduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws. If any such actions are instituted against us, and we are not successful in defending ourselves, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, disgorgement, individual imprisonment, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

Risks Related to Our Intellectual Property

If we cannot defend our issued patents from third party claims or if our pending patent applications fail to issue, our business could be adversely affected.

To protect our proprietary technology, we rely on patents as well as other intellectual property protections including trade secrets, nondisclosure agreements, and confidentiality provisions. As of December 31, 2014, we are the owner of record of 37 issued patents worldwide. These issued patents cover AcelRx's sufentanil sublingual tablet, medication delivery devices and platform technology. These issued patents are expected to provide coverage through 2027 – 2030.

In addition, we are pursuing a number of U.S. non-provisional patent applications and foreign national applications directed to our product candidates. The patent applications that we have filed and have not yet been granted may fail to result in issued patents in the United States or in foreign countries. Even if the patents do successfully issue, third

parties may challenge the patents.

Our commercial success will depend in part on successfully defending our current patents against third party challenges and expanding our existing patent portfolio to provide additional layers of patent protection, as well as extending patent protection. There can be no assurance that we will be successful in defending our existing and future patents against third party challenges, or that our pending patent applications will result in additional issued patents.

The patent positions of pharmaceutical companies, including us, can be highly uncertain and involve complex and evolving legal and factual questions. No consistent policy regarding the breadth of claims allowed in pharmaceutical patents has emerged to date in the United States. Legal developments may preclude or limit the scope of available patent protection.

There is also no assurance that any patents issued to us will not become the subject of adversarial proceedings such as opposition, inter partes review, post-grant review, reissue, re-examination or other post-issuance proceedings, will provide us with competitive advantages, will not be challenged by any third parties, or that the patents of others will not prevent the commercialization of products incorporating our technology. Furthermore, there can be no guarantee that others will not independently develop similar products, duplicate any of our products, or design around our patents.

Litigation involving patents, patent applications and other proprietary rights is expensive and time consuming. If we are involved in such litigation, it could cause delays in bringing our product candidates to market and interfere with our business.

Our commercial success depends in part on not infringing patents and proprietary rights of third parties. Although we are not currently aware of litigation or other proceedings or third party claims of intellectual property infringement related to our product candidates, the pharmaceutical industry is characterized by extensive litigation regarding patents and other intellectual property rights.

As we enter our target markets, it is possible that competitors or other third parties will claim that our products and/or processes infringe their intellectual property rights. These third parties may have obtained and may in the future obtain patents covering products or processes that are similar to, or may include compositions or methods that encompass our technology, allowing them to claim that the use of our technologies infringes these patents.

In a patent infringement claim against us, we may assert, as a defense, that we do not infringe the relevant patent claims, that the patent is invalid or both. The strength of our defenses will depend on the patents asserted, the interpretation of these patents, and our ability to invalidate the asserted patents. However, we could be unsuccessful in advancing non-infringement and/or invalidity arguments in our defense. In the United States, issued patents enjoy a presumption of validity, and the party challenging the validity of a patent claim must present clear and convincing evidence of invalidity, which is a high burden of proof. Conversely, the patent owner need only prove infringement by a preponderance of the evidence, which is a lower burden of proof.

If we were found by a court to have infringed a valid patent claim, we could be prevented from using the patented technology or be required to pay the owner of the patent for the right to license the patented technology. If we decide to pursue a license to one or more of these patents, we may not be able to obtain a license on commercially reasonable terms, if at all, or the license we obtain may require us to pay substantial royalties or grant cross licenses to our patent rights. For example, if the relevant patent is owned by a competitor, that competitor may choose not to license patent rights to us. If we decide to develop alternative technology, we may not be able to do so in a timely or cost-effective manner, if at all.

In addition, because patent applications can take years to issue and are often afforded confidentiality for some period of time there may currently be pending applications, unknown to us, that later result in issued patents that could cover one or more of our products.

It is possible that we may in the future receive, particularly as a public company, communications from competitors and other companies alleging that we may be infringing their patents, trade secrets or other intellectual property rights, offering licenses to such intellectual property or threatening litigation. In addition to patent infringement claims, third parties may assert copyright, trademark or other proprietary rights against us. We may need to expend considerable resources to counter such claims and may not be able to successful in our defense. Our business may suffer if a finding of infringement is established.

It is difficult and costly to protect our proprietary rights, and we may not be able to ensure their protection.

The patent positions of pharmaceutical companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in pharmaceutical patents has emerged to date in the United States. The pharmaceutical patent situation outside the United States is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. For example, on September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to United States patent law. These include provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. The United States Patent Office has developed new regulations and procedures to govern the full implementation of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first to file provisions, that became effective March 16, 2013. It is too early to tell what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in the patents that may be issued from the applications we currently or may in the future own or license from third parties. Further, if any patent license we obtain is deemed invalid and/or unenforceable, it could impact our ability to commercialize or partner our technology.

Competitors or third parties may infringe our patents. We may be required to file patent infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or that the third party's technology does not in fact infringe upon our patents. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our related pending patent applications at risk of not issuing. Litigation may fail and, even if successful, may result in substantial costs and be a distraction to our management. We may not be able to prevent misappropriation of our proprietary rights, particularly in countries outside the United States where patent rights may be more difficult to enforce. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential or sensitive information could be compromised by disclosure in the event of litigation. In addition, during the course of litigation there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

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The degree of future protection for our proprietary rights is uncertain, and we cannot ensure that:

- we were the first to make the inventions covered by each of our pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any patents issued to us or our collaborators will provide a basis for commercially viable products, will provide us with any competitive advantages or will not be challenged by third parties; or
- the patents of others will not have an adverse effect on our business.

If we do not adequately protect our proprietary rights, competitors may be able to use our technologies and erode or negate any competitive advantage we may have, which could materially harm our business, negatively affect our position in the marketplace, limit our ability to commercialize our product candidates, and delay or render impossible our achievement of profitability.

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

We rely on trade secrets to protect our proprietary know-how and technological advances, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect our trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. Failure to obtain or maintain trade secret protection could enable competitors to use our proprietary information to develop products that compete with our products or cause additional, material adverse effects upon our competitive business position.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and applications will be due to be paid to the United States Patent and Trademark Office and various foreign governmental patent agencies in several stages over the lifetime of the patents and/or applications.

We have systems in place, including use of third party vendors, to manage payment of periodic maintenance fees, renewal fees, annuity fees and various other patent and application fees. The United States Patent and Trademark Office, or the USPTO, and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. There are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. If this occurs, our competitors might be able to enter the market, which would have a material adverse effect on our business.

We may not be able to enforce our intellectual property rights throughout the world.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, particularly developing countries, do not favor the enforcement of patents and other intellectual property protection, especially those relating to life sciences. This could make it difficult for us to stop the infringement of our patents or the misappropriation of our other intellectual property rights. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the enforceability of patents against third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit.

Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate. In addition, changes in the law and legal decisions by courts in the United States and foreign countries may affect our ability to obtain adequate protection for our technology and the enforcement of intellectual property.

We have not yet registered our trademarks in all of our potential markets, and failure to secure those registrations could adversely affect our business.

We have registered our ACELRX mark in the United States, Canada, the European Union and India. We have also registered the mark ACCELERATE. INNOVATE. ALLEVIATE. in the United States. We have additionally applied for registration of our ZALVISO mark in the United States on an intent-to-use basis and that application has been allowed. In early 2014, the FDA accepted the ZALVISO mark as part of the NDA review process. Although we are not currently aware of any oppositions to or cancellations of our registered trademarks or pending applications, it is possible that one or more of the applications could be subject to opposition or cancellation after the marks are registered. The registrations will be subject to use and maintenance requirements. It is also possible that we have not yet registered all of our trademarks in all of our potential markets, and that there are names or symbols other than "ACELRX" that may be protectable marks for which we have not sought registration, and failure to secure those registrations could adversely affect our business. Opposition or cancellation proceedings may be filed against our trademarks and our trademarks may not survive such proceedings.

Risks Related to Ownership of Our Common Stock

The market price of our common stock may be highly volatile.

Since our initial public offering, or IPO, in February 2011, the trading price of our common stock has experienced significant volatility and is likely to be volatile in the future. For example, our stock price declined by more than 40% on July 28, 2014, the first trading day following the announcement of the receipt of the CRL from the FDA. In addition, our stock price dropped by 37% on March 9, 2015, the day we announced the correspondence we received from the FDA requesting an additional clinical study for Zalviso. Our stock price could be subject to wide fluctuations in response to a variety of factors, including the following:

- any delay in resubmitting the NDA for Zalviso, submitting an NDA for any of our other product candidates and any adverse development or perceived adverse development with respect to the FDA's review of any NDA;
- any adverse development or perceived adverse development with respect to the FDA's regulatory review of Zalviso;
- adverse results or delays in future clinical trials;

- inability to obtain additional funding, including funding necessary for the planned potential commercialization and manufacturing of Zalviso in the United States and advancement of clinical trials for other product candidates;
- failure to successfully develop and commercialize our product candidates;
- changes in laws or regulations applicable to our products;
- inability to obtain adequate product supply for our product candidates, or the inability to do so at acceptable prices;
- adverse regulatory decisions;
- introduction of new products, services or technologies by our competitors;
- failure to meet or exceed financial projections we provide to the public;
- failure to meet or exceed the estimates and projections of the investment community;
- the perception of the pharmaceutical industry by the public, legislatures, regulators and the investment community;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- additions or departures of key scientific or management personnel;
- significant lawsuits, including patent or stockholder litigation;
- changes in the market valuations of similar companies;
- sales of our common stock by us or our stockholders in the future; and
- trading volume of our common stock.

In addition, the stock market in general, and The NASDAQ Global Market, or NASDAQ, in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance.

Historically, our common stock has thinly traded, and in the future may continue to be thinly traded, and our stockholders may be unable to sell at or near asking prices, or at all if they need to sell their shares to raise money or otherwise desire to liquidate such shares.

Historically, we have not had a high volume of daily trades in our common stock on NASDAQ. For example, the average daily trading volume in our common stock on NASDAQ during the years ended December 31, 2014 and December 31, 2013, was approximately 700,000 and 540,000 shares per day, respectively. A more active market for our stock has only recently developed and may not be sustained. Our stockholders may be unable to sell their common stock at or near their asking prices, which may result in substantial losses to our investors.

The market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will be more volatile than a seasoned issuer for the indefinite future. As noted above, our common stock may be sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline significantly in the event that a large number of our common stock are sold on the market without commensurate demand, as compared to a seasoned issuer that could better absorb those sales without adverse impact on its share price.

Our principal stockholders and management own a significant percentage of our stock and are able to exert significant control over matters subject to stockholder approval.

Our executive officers and directors, together with the stockholders with whom our executive officers and directors are affiliated or associated, beneficially own a significant percentage of our voting stock. Therefore, these stockholders have the ability to influence us through this ownership position. These stockholders are able to determine all matters requiring stockholder approval. For example, these stockholders, acting together, are able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may believe are in your best interest as one of our stockholders.

We incur significant increased costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives.

As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, as well as the information and reporting requirements of the Exchange Act and other federal securities laws, and rules subsequently implemented by the SEC and NASDAQ, have imposed various requirements

on public companies. The costs of compliance with the Sarbanes-Oxley Act and of preparing and filing annual and quarterly reports, proxy statements and other information with the SEC, the Dodd-Frank Act, and regulations promulgated under these statutes, are significant. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain our current levels of such coverage.

As a public company, we are subject to the requirements of Section 404 of the Sarbanes-Oxley Act. If we are unable to comply with Section 404 in a timely manner, it may affect the reliability of our internal control over financial reporting. Assessing our staffing and training procedures to improve our internal control over financial reporting is an ongoing process.

We have been and will continue to be involved in a substantial effort to implement appropriate processes, document the system of internal control over key processes, assess their design, remediate any deficiencies identified and test their operation. If we fail to comply with the requirements of Section 404, it may affect the reliability of our internal control over financial reporting and negatively impact the quality of disclosure to our stockholders. If we or our independent registered public accounting firm identify and report a material weakness, it could adversely affect our stock price.

Sales of a substantial number of shares of our common stock in the public market by our existing stockholders could cause our stock price to fall.