ACELRX PHARMACEUTICALS INC
Form 10-Q
November 06, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

¨ **TRANSITION REPORTS 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)

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 x 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 x No ¨

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 x

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes ¨ No x

As of October 15, 2012, the number of outstanding shares of the registrant s common stock was 22,646,773.

Table of Contents

ACELRX PHARMACEUTICALS, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

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

ACELRX, NANOTAB and ACCELERATE, INNOVATE, ALLEVIATE, are registered trademarks of AcelRx Pharmaceuticals, Inc. Other trademarks of AcelRx Pharmaceuticals, Inc. appearing in this report are the property of AcelRx Pharmaceuticals, Inc.

This report also contains trademarks and trade names that are the property of their respective owners.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AcelRx Pharmaceuticals, Inc.

(A Development Stage Company)

Condensed Balance Sheets

(In thousands, except share data)

	September 30, 2012 (Unaudited)	December 31, 2011[(1)]
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,721	$ 7,794
Short-term investments	19,654	27,991
Prepaid expenses and other current assets	1,922	2,361
Total current assets	25,297	38,146
Property and equipment, net	2,524	2,306
Restricted cash	205	205
Other assets	125	178
TOTAL ASSETS	$ 28,151	$ 40,835
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,858	$ 1,530
Accrued liabilities	2,143	2,565
Long-term debt, current portion	7,226	3,750
Total current liabilities	12,227	7,845
Deferred rent	341	15
Long-term debt, net of current portion	10,456	15,275
Warrant liability	5,345	
Contingent put option liability	109	232
Total liabilities	28,478	23,367
STOCKHOLDERS EQUITY:		
Common stock, $0.001 par value 100,000,000 shares authorized as of September 30, 2012 and December 31, 2011; 22,646,773 and 19,567,778 shares issued and outstanding as of September 30, 2012 and December 31, 2011	23	22
Additional paid-in capital	111,154	106,110
Deficit accumulated during the development stage	(111,505)	(88,664)
Accumulated other comprehensive income	1	
Total stockholders equity (deficit)	(327)	17,468

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	28,151	$	40,835

(1) The condensed balance sheet as of December 31, 2011 has been derived from the audited financial statements as of that date included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

See notes to condensed financial statements.

Table of Contents

AcelRx Pharmaceuticals, Inc.

(A Development Stage Company)

Condensed Statements of Comprehensive Loss

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Period from July 13, 2005 (Inception) Through September 30, 2012
Research grant revenue	$ 166	$ 408	$ 719	$ 448	$ 1,791
Operating expenses:					
Research and development	6,948	3,947	17,113	8,922	84,534
General and administrative	1,410	1,866	5,290	5,086	24,584
Total operating expenses	8,358	5,813	22,403	14,008	109,118
Loss from operations	(8,192)	(5,405)	(21,684)	(13,560)	(107,327)
Interest expense	(573)	(377)	(1,765)	(1,891)	(7,204)
Interest income and Other income (expense), net	183	21	608	1,722	3,026
Net loss	(8,582)	(5,761)	(22,841)	(13,729)	(111,505)
Other comprehensive loss:					
Unrealized gains on available for sale securities	4	5	1	3	1
Comprehensive loss	$ (8,578)	$ (5,755)	$ (22,840)	$ (13,726)	$ (111,504)
Net loss per share of common stock, basic and diluted	$ (0.38)	$ (0.30)	$ (1.09)	$ (0.83)	
Shares used to compute basic and diluted net loss per share of common stock	22,632,573	19,458,640	20,961,886	16,594,051	

See notes to condensed financial statements.

Table of Contents

AcelRx Pharmaceuticals, Inc.

(A Development Stage Company)

Condensed Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Period from July 13, 2005 (Inception) Through September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (22,841)	$ (13,729)	$ (111,505)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	467	348	2,545
Amortization of premium/discount on investments, net	339	196	534
Interest expense related to debt financing	497	1,462	3,324
Stock-based compensation	1,633	1,346	5,979
Revaluation of convertible preferred stock warrant, call option, put option and private placement warrant liabilities	(606)	(1,688)	(690)
Other	38		28
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	459	(133)	(524)
Restricted cash			(205)
Accounts payable	1,328	2,083	2,858
Accrued liabilities	(478)	961	400
Deferred rent	381	(142)	450
Net cash used in operating activities	(18,783)	(9,296)	(96,806)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(723)	(1,777)	(5,111)
Purchase of investments	(23,528)	(33,280)	(108,195)
Proceeds from sale of investments			21,815
Proceeds from maturity of investments	31,527	3,516	66,243
Net cash provided by (used in) investing activities	7,276	(31,541)	(25,248)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from initial public offering, net of costs		34,939	34,939
Proceeds from private placement of common stock, net of costs	9,077		9,077
Proceeds from the issuance of long-term debt		9,762	32,383
Payments of long-term debt	(1,806)	(5,298)	(15,027)
Proceeds from issuance of convertible promissory notes			9,000
Proceeds from issuance of common stock pursuant to equity plans	163	204	462
Proceeds from issuance of convertible preferred stock, net of issuance costs			54,941
Net cash provided by financing activities	7,434	39,607	125,775

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,073)	(1,230)	3,721
CASH AND CASH EQUIVALENTS Beginning of period	7,794	3,055	
CASH AND CASH EQUIVALENTS End of period	$ 3,721	$ 1,825	$ 3,721
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 1,255	$ 347	$ 4,157
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Contingent put option liability	$	$ 62	$ 62
Issuance of convertible preferred stock warrants	$	$	$ 1,223
Beneficial conversion features related to convertible notes	$	$	$ 1,699
Issuance of call option related to convertible note	$	$	$ 476
Conversion of convertible promissory notes into common stock	$	$ 8,137	$ 8,137
Issuance of common stock upon cashless exercise of warrants	$	$ 536	$ 536
Reclassification of warrant liability and call option liability to equity	$	$ 906	$ 906
Issuance of warrants for common stock	$ 5,828	$ 967	$ 6,795
Purchase of property and equipment through accounts payable and accrued liabilities	$	$ 865	$

See notes to condensed financial statements.

5

Table of Contents

AcelRx Pharmaceuticals, Inc.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

The Company

AcelRx Pharmaceuticals, Inc., or AcelRx or the Company, is a development stage company that was incorporated in Delaware on July 13, 2005 as SuRx, Inc. In January 2006, the Company changed its name to AcelRx Pharmaceuticals, Inc. The Company s operations are based in Redwood City, California.

The Company is a specialty pharmaceutical company focused on the development and commercialization of innovative therapies for the treatment of acute and breakthrough pain. Since incorporation, primary activities have consisted of establishing facilities, recruiting personnel, conducting research and development of its product candidates, developing intellectual property and raising capital. To date, the Company has not yet commenced primary operations or generated any significant revenues and, accordingly, the Company is considered to be in the development stage.

The Company has one business activity, which is the development and commercialization of product candidates for the treatment of pain, and a single reporting and operating unit structure.

The Company has incurred recurring operating losses and negative cash flows from operating activities since inception through September 30, 2012. In addition, the Company had an accumulated deficit of $111.5 million and $88.7 million as of September 30, 2012 and December 31, 2011, respectively. Through September 30, 2012, the Company has relied primarily on the proceeds from equity offerings and loan proceeds to finance its operations. Management believes that the Company s current cash, cash equivalents and investments will be sufficient to fund the Company s current operations into the second quarter of 2013, including support for the continuing development of ARX-01, our lead product candidate. The Company will need to raise additional funding or otherwise enter into collaborations to fund future operations. However, there is no assurance that additional funding will be available to the Company on acceptable terms on a timely basis, if at all, or that the Company will achieve profitable operations. If the Company is unable to raise additional capital to fund its operations, it will need to curtail planned activities, such as completion of our final planned ARX-01 Phase 3 trial, to reduce costs. Doing so may affect the Company s ability to operate effectively. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the U.S. Securities and Exchange Commission, or the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The condensed balance sheet as of December 31, 2011 was derived from the Company s audited financial statements as of December 31, 2011, included in the Company s Annual Report on Form 10-K filed with the SEC. These financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011, which include a broader discussion of the Company s business and the risks inherent therein.

Initial Public Offering

On February 10, 2011, the Company sold 8,000,000 shares of common stock at a price of $5.00 per share in its initial public offering, or the IPO. The shares began trading on the NASDAQ Global Market on February 11, 2011. The Company received $34.9 million in net proceeds from the IPO, after deducting an estimated $5.1 million in underwriting discounts and commissions and other offering-related expenses payable by the Company. Upon the closing of the IPO, all outstanding shares of convertible preferred stock converted into 8,555,713 shares of common stock. In addition, the principal and accrued interest under the 2010 Convertible Notes, as defined in Note 6 Convertible Notes, converted into 2,034,438 shares of common stock immediately prior to the closing of the IPO and the 2010 Warrants, as defined in Note 7 Warrants, were net exercised for 107,246 shares of Series C convertible preferred stock, which shares were converted to common stock immediately prior to the closing of the IPO. All other outstanding warrants to purchase convertible preferred stock became exercisable for shares of common stock.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates, including critical accounting policies. Estimates are based on historical experience and on various other market specific and other relevant assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Newly Adopted Accounting Pronouncements

In June of 2011, Accounting Standards Codification Topic 220, *Comprehensive Income* was amended to increase the prominence of items reported in other comprehensive income. Accordingly, a company can present all non-owner changes in stockholders equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted this guidance as of January 1, 2012 on a retrospective basis and this adoption did not have a material effect on the Company s financial statements.

In May of 2011, Accounting Standards Codification Topic 820, *Fair Value Measurement* was amended to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards. The Company adopted this guidance as of January 1, 2012 on a retrospective basis and this adoption did not have a material effect on the Company s financial statements.

2. Investments and Fair Value Measurement

Investments

The Company classifies its marketable securities as available-for-sale and records its investments at fair value. Available-for-sale securities are carried at estimated fair value based on quoted market prices, with the unrealized holding gains and losses included in accumulated other comprehensive income. Marketable securities which have maturities beyond one year as of the end of the reporting period are classified as non-current.

The table below summarizes the Company s cash, cash equivalents and investments (in thousands):

	As of September 30, 2012			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Cash and cash equivalents:				
Cash	$ 1,241	$	$	$ 1,241
Money market funds	2,280			2,280
U.S. government agency securities	200			200
Total cash and cash equivalents	3,721			3,721
Marketable securities:				
U.S. government agency securities	19,653	1		$ 19,654
Total marketable securities	19,653	1		$ 19,654
Total cash, cash equivalents and investments	$ 23,374	$ 1	$	$ 23,375

	As of December 31, 2011			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**

Cash and cash equivalents:				
Cash	$ 641	$	$	$ 641
Money market funds	6,883			6,883
U.S. government agency securities	270			270
Total cash and cash equivalents	7,794			$ 7,794

Table of Contents

	As of December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable securities:				
U.S. government agency securities	27,991			27,991
Total marketable securities	27,991			$ 27,991
Total cash, cash equivalents and investments	$ 35,785	$	$	$ 35,785

As of September 30, 2012 and December 31, 2011 none of the available-for-sale securities held by the Company had material unrealized losses and there were no realized losses for the nine months ended September 30, 2012. There were no other-than-temporary impairments for these securities at September 30, 2012 or December 31, 2011.

As of September 30, 2012, the contractual maturity of all investments held was less than one year.

Fair Value Measurement

The Company s financial instruments consist of Level I and Level II assets and Level III liabilities. Level I securities include highly liquid money market funds and are valued based on quoted market prices. For Level II instruments, the Company estimates fair value by utilizing third party pricing services in developing fair value measurements where fair value is based on valuation methodologies such as models using observable market inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers and other reference data. Such Level II instruments typically include U.S. treasury and U.S. government agency obligations. As of September 30, 2012 and December 31, 2011, the Company held, in addition to Level I and Level II assets, a contingent put option liability associated with the Company s loan and security agreement with Hercules Technology II, L.P. and Hercules Technology Growth Capital, Inc., collectively referred to as Hercules, which was classified as a Level III liability. As of September 30, 2012 and December 31, 2011, the estimated fair value of the contingent put option liability was $109,000 and $232,000, respectively, which was determined by using a risk-neutral valuation model, wherein the fair value of the underlying debt facility is estimated both with and without the presence of the default provisions, holding all other assumptions constant. The resulting difference between the two estimated fair values is the estimated fair value of the default provisions, or the contingent put option. The fair value of the underlying debt facility is estimated by calculating the expected cash flows in consideration of an estimated probability of default and expected recovery rate in default, and discounting such cash flows back to the reporting date using a risk-free rate. As of September 30, 2012, the Company also held a Level III liability associated with warrants, or PIPE warrants, issued in connection with the Company s private placement equity offering, completed in June 2012. For a detailed description, see Note 5 Stockholders Equity. The PIPE warrants are considered a liability and are valued using the Black-Scholes option-pricing model, the inputs for which include exercise price of the PIPE warrants, market price of the underlying common shares, expected term, volatility based on a group of the Company s peers and the risk-free rate corresponding to the expected term of the PIPE warrants. Changes to one, or any, of the inputs impact the estimated fair value of the PIPE warrants.

The following table sets forth the fair value of the Company s financial assets and liabilities by level within the fair value hierarchy (in thousands):

	As of September 30, 2012			
	Fair Value	Level I	Level II	Level III
Assets				
Money market funds	$ 2,280	$ 2,280	$	$
U.S. government agency obligations	19,854		19,854	
Total assets measured at fair value	$ 22,134	$ 2,280	$ 19,854	$
Liabilities				
PIPE warrants	$ 5,345			$ 5,345
Contingent put option liability	109			109
Total liabilities measured at fair value	$ 5,454	$	$	$ 5,454

8

Table of Contents

	As of December 31, 2011			
	Fair Value	Level I	Level II	Level III
Assets				
Money market funds	$ 6,883	$ 6,883	$	$
U.S. government agency obligations	28,261		28,261	
Total assets measured at fair value	$ 35,144	$ 6,883	$ 28,261	$

	As of December 31, 2011			
	Fair Value	Level I	Level II	Level III
Liabilities				
Contingent put option liability	$ 232			$ 232
Total liabilities measured at fair value	$ 232	$	$	$ 232

The following table sets forth the assumptions used in the Black-Scholes option-pricing model to estimate the fair value of the PIPE warrants as of September 30, 2012:

Risk-free interest rate	0.62%
Expected volatility	81.0%
Expected life (in years)	5.2
Expected dividend yield	0.0%

The following table sets forth a summary of the changes in the fair value of the Company s Level III financial liabilities (in thousands):

	Nine Months Ended September 30, 2012
Fair value beginning of period	$ 232
Addition of PIPE warrants on June 1, 2012	5,828
Change in fair value of PIPE warrants	(483)
Change in fair value of contingent put option	(123)
Fair value end of period	$ 5,454

3. Research Grant Agreement

In May 2011, AcelRx received a grant from the US Army Medical Research and Materiel Command, or USAMRMC, in which the USAMRMC granted $5.6 million to the Company in order to support the development of a new product candidate, ARX-04, a Sufentanil NanoTab for the treatment of moderate-to-severe acute pain. Under the terms of the grant, the USAMRMC will reimburse the Company for development, manufacturing and clinical costs necessary to prepare for and complete the planned Phase 2 dose-finding trial in a study of acute moderate-to-severe pain, and to prepare to enter Phase 3 development. The period of research under the grant was originally scheduled to end on August 31, 2012, with a final report due on September 30, 2012. In June 2012, due to a longer than expected administrative review process by the USAMRMC, the Company was awarded a no-cost extension of the grant whereby the period of research was extended through May 31, 2013, with a final report due on June 30, 2013. The grant gives the USAMRMC the option to extend the term of the grant and provide additional funding for the research.

Revenue is recognized based on expenses incurred by AcelRx in conducting research and development activities set forth in the grant agreement. Revenue attributable to the research and development performed under the USAMRMC grant was $166,000 and $719,000 for the three and nine months ended September 30, 2012, respectively, and $408,000 and $448,000 for the three and nine months ended September 30, 2011. Revenue attributable to the research and development performed under the USAMRMC grant since inception was $1.8 million.

Table of Contents

4. Long-Term Debt

Hercules Loan and Security Agreement

On June 29, 2011, AcelRx entered into a loan and security agreement with Hercules, under which AcelRx borrowed $20.0 million in two tranches of $10.0 million each, represented by secured convertible term promissory notes. The Company s obligations associated with the agreement are secured by a security interest in substantially all of its assets, other than its intellectual property.

The interest rate for each tranche is 8.50% and the Company made interest only payments until June 30, 2012 followed by equal monthly payments of $0.7 million, consisting of principal and interest, through the scheduled maturity date on December 1, 2014.

Upon an event of default, including a change of control, Hercules has the option to accelerate repayment of the notes, including payment of any applicable prepayment charges, which range from 1%-3% of the outstanding loan balance and accrued interest, as well as a final payment fee of $0.2 million. This option is considered a contingent put option liability as the holder of the notes may exercise the option in the event of default and, is considered an embedded derivative which must be valued and separately accounted for in the Company s financial statements. The contingent put option liability was recorded as a debt discount to the loan and consequently a reduction to the carrying value of the loan. The contingent put option liability will be revalued at the end of each reporting period and any change in the fair value will be recognized in the statement of comprehensive loss. As of September 30, 2012, the estimated fair value of the contingent put option liability was $109,000. See Note 2 Investments and Fair Value Measurement for further description of the contingent put option liability.

In connection with the loan, the Company issued Hercules seven-year warrants to purchase an aggregate of 274,508 shares of common stock at a price of $3.06 per share. See Note 7 Warrants for further description.

As of September 30, 2012, the Company had outstanding borrowings under the Hercules loan and security agreement of $17.7 million, net of debt discounts of $0.6 million. Amortization of the debt discounts, which was recorded as Interest Expense, was $134,000 and $406,000 for the three and nine months ended September 30, 2012, respectively and $126,000 for both the three and nine months ended September 30, 2011.

Pinnacle Loan and Security Agreement

In September 2008, the Company entered into a $12.0 million loan and security agreement with Pinnacle. In November 2008, the Company drew down all $12.0 million of the loan facility. On June 29, 2011, upon execution of the Hercules loan and security agreement, the Pinnacle agreement was terminated and the outstanding balance of $2.8 million was repaid. The unamortized portions of the final payment and deferred financing costs were recorded to interest expense upon termination of the Pinnacle agreement.

5. Stockholders Equity

2012 Private Placement Offering

On June 1, 2012, or the Issuance Date, the Company issued an aggregate of 2,922,337 shares of common stock and warrants to purchase up to 2,630,103 shares of common stock, or the PIPE warrants, for aggregate gross proceeds of $10.0 million, or the Private Placement. Costs related to the offering were $0.9 million. The shares of common stock and PIPE warrants issued in the Private Placement were sold pursuant to a Securities Purchase Agreement, or Purchase Agreement, dated May 29, 2012, between the Company and certain purchasers, including certain entities affiliated with Mark Wan and Stephen J. Hoffman, members of the Company s board of directors. Pursuant to the Purchase Agreement, AcelRx sold shares of common stock and PIPE warrants to purchase common stock in immediately separable Units, with each Unit consisting of (i) one share of common stock and (ii) a PIPE warrant to purchase 0.9 of a share of common stock. The per share exercise price of the PIPE warrants was $3.40. The offering price per Unit was $3.40 for non-affiliated investors, and $3.5125 for affiliated investors, which equals the sum of (i) $3.40, the closing consolidated bid price of our common stock on May 29, 2012, plus (ii) $0.1