

Ampio Pharmaceuticals, Inc.

Form 10-Q

May 03, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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: March 31, 2013

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 No. 001-35182

AMPIO PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

26-0179592
(IRS Employer
Identification No.)

5445 DTC Parkway

Suite 925

Greenwood Village, Colorado 80111

(Address of principal executive offices, including zip code)

(720) 437-6500

(Registrant's telephone number, including area code)

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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12B-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

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

As of May 3, 2013, there were 37,091,588 shares outstanding of Common Stock, par value \$0.0001, of the registrant.

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AMPIO PHARMACEUTICALS, INC.

AND SUBSIDIARIES

THREE MONTHS ENDED MARCH 31, 2013

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this report, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements appear in a number of places, including Management's Discussion and Analysis of Financial Condition and Results of Operations. These statements represent our reasonable judgment of the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts, and use words such as anticipate, believe, estimate, expect, forecast, may, should, plan, project and other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

projected operating or financial results, including anticipated cash flows used in operations;

expectations regarding capital expenditures, research and development expense and other payments;

our beliefs and assumptions relating to our liquidity position, including our ability to obtain additional financing;

our ability to obtain regulatory approvals for our pharmaceutical drugs and diagnostics; and

our future dependence on third party manufacturers or strategic partners to manufacture any of our pharmaceutical drugs and diagnostics that receive regulatory approval, and our ability to identify strategic partners and enter into license, co-development, collaboration or similar arrangements.

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors including, among others:

the loss of key management personnel or sponsored research partners on whom we depend;

the progress and results of clinical trials for our product candidates;

our ability to navigate the regulatory approval process in the U.S. and other countries, and our success in obtaining required regulatory approvals for our product candidates;

commercial developments for products that compete with our product candidates;

the actual and perceived effectiveness of our product candidates, and how those product candidates compare to competitive products;

the strength of our intellectual property protection, and our success in avoiding infringing the intellectual property rights of others;

adverse developments in our research and development activities;

potential liability if our product candidates cause illness, injury or death, or adverse publicity from any such events;

our ability to operate our business efficiently, manage capital expenditures and costs (including general and administrative expenses) and obtain financing when required;

our expectations with respect to our acquisition activity.

In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements, some of which are included elsewhere in this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report, except as otherwise required by applicable law.

This Quarterly Report on Form 10-Q includes trademarks, such as Ampion, Optina, Zertane and Vasaloc, which are protected under applicable intellectual property laws and are our property or the property of our subsidiaries. Solely for convenience, our trademarks and tradenames referred to in this Quarterly Report on Form 10-Q may appear without the ® or ™ symbols, but such references are not intended to indicate in any way that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and tradenames.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES****(A Development Stage Company)****Consolidated Balance Sheets**

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 16,527,349	\$ 17,682,517
Prepaid expenses	350,390	164,890
Total current assets	16,877,739	17,847,407
Fixed assets, net	327,085	59,290
In-process research and development	7,500,000	7,500,000
Patents, net	789,104	420,468
Deposits	20,000	20,000
	8,636,189	7,999,758
Total assets	\$ 25,513,928	\$ 25,847,165
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 1,169,800	\$ 1,201,122
Deferred revenue	50,000	50,000
Warrant derivative liability	502,752	384,771
Total current liabilities	1,722,552	1,635,893
Long-term deferred revenue	368,750	381,250
Total liabilities	2,091,302	2,017,143
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred Stock, par value \$.0001; 10,000,000 shares authorized; none issued		
Common Stock, par value \$.0001; 100,000,000 shares authorized; shares issued and outstanding - 37,085,784 in 2013 and 37,009,695 in 2012	3,709	3,701
Additional paid-in capital	67,030,729	63,687,558
Advances to stockholders	(90,640)	(90,640)
Deficit accumulated in the development stage	(43,949,225)	(39,770,597)

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Total Ampio stockholders' equity	22,994,573	23,830,022
Non-controlling interests	428,053	
Total equity	23,422,626	23,830,022
Total liabilities and equity	\$ 25,513,928	\$ 25,847,165

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES****(A Development Stage Company)****Consolidated Statements of Operations****(unaudited)**

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	December 18, 2008 (Inception) through March 31, 2013
License revenue	\$ 12,500	\$ 12,500	\$ 81,250
Expenses			
Research and development	\$ 2,786,822	\$ 1,472,707	\$ 19,740,859
Research and development - related party			230,688
General and administrative	1,311,800	1,536,201	15,367,712
Total operating expenses	4,098,622	3,008,908	35,339,259
Other income (expense)			
Interest income	4,277	3,553	34,810
Interest expense			(29,317)
Unrealized loss on fair value of debt instruments			(5,547,911)
Derivative (expense) income	(126,478)	156,979	(2,843,978)
Total other (expense) income	(122,201)	160,532	(8,386,396)
Net loss, before income tax	\$ (4,208,323)	\$ (2,835,876)	\$ (43,644,405)
Foreign tax expense			82,500
Net loss	\$ (4,208,323)	\$ (2,835,876)	\$ (43,726,905)
Net loss applicable to non-controlling interests	\$ 29,695	\$	\$ 29,695
Net loss applicable to Ampio	\$ (4,178,628)	\$	\$ (43,697,210)
Weighted average number of Ampio common shares outstanding	37,072,509	31,126,685	
Basic and diluted Ampio net loss per common share	\$ (0.11)	\$ (0.09)	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES****(A Development Stage Company)****Consolidated Statements of Stockholders' Equity (Deficit)**

	Series A Preferred Stock		Common Stock		Common Stock Subscribed	Additional Paid in Capital	Additional Issuances	Advances to Stockholders	Deficit Accumulated in the Development Stage	Non-controlling Interests	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount							
Balance - December 18, 2008 (date of inception)		\$		\$	\$	\$	\$	\$	\$	\$	\$
Issuance of common stock to founder December, 2008			1,080,000	1,080							1,080
Balance - December 31, 2008			1,080,000	1,080							1,080
Issuance of common stock and assumption of liabilities in asset acquisition			3,500,000	3,500					(252,015)		(248,515)
Issuance of Series A Preferred Stock in exchange for cancellation of a note payable in April 2009	163,934	164				199,836					200,000
Issuance of restricted common stock in exchange for cash in April 2009			7,350,000	7,350							7,350
Issuance of Series A Preferred Stock in exchange for cash in April and May 2009	913,930	914				1,114,106					1,115,020
Common stock subscribed in November and December 2009					170,003						170,003
Net loss									(1,512,908)		(1,512,908)
Balance - December 31, 2009	1,077,864	\$ 1,078	11,930,000	\$ 11,930	\$ 170,003	\$ 1,313,942	\$	\$	\$ (1,764,923)	\$	\$ (267,970)
Conversion of equity in	(1,077,864)	(1,078)	3,068,958	(10,430)		11,691					183

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reverse merger acquisition										
Common stock subscribed in March 2010		7,000							7,000	
Issuance of common stock in exchange for cash in March and June 2010, net of offering costs of \$350,000	1,078,078	108	(177,003)	1,536,522					1,359,627	
Issuance of common stock for services	1,030,000	103		1,802,397	(3,281)				1,799,219	
Stock-based compensation				1,297,083					1,297,083	
Loans to shareholders					(150,183)				(150,183)	
Net loss							(8,053,395)		(8,053,395)	
Balance - December 31, 2010	\$	17,107,036	\$	1,711	\$	5,961,635	\$	(3,281)	\$	(150,183)
Stock-based compensation		13,635		1		1,983,784				(9,818,318)
Issuance of common stock for services								3,281		\$
Conversion of debentures	1,281,852	128		9,423,947					3,281	
Shares issued for cash	1,714			3,000					3,000	
Options exercised, net	301,604	30		109,015					109,045	
Issuance of common stock for acquisition of DMI BioSciences, Inc., net of 3,500,000 shares of Ampio common stock exchanged	5,167,905	517		7,852,220					7,852,737	
Issuance of common stock in exchange for cash in March and April, net of offering costs of \$2,704,328	5,092,880	509		10,916,029					10,916,538	
Warrants exercised	88,669	8		784,356					784,364	
Shares received in exchange for options issued	(98,416)	(9)		574,009					574,000	
Escrow shares claimed	(95,700)	(9)		9						
Repayment of advance							22,660		22,660	
Issuance of common stock in exchange for cash in December, net of offering	2,220,255	222		8,453,779					8,454,001	

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costs of									
\$982,083									
Net loss						(18,359,234)		(18,359,234)	
Balance -									
December 31,									
2011	\$	31,081,434	\$	3,108	\$	\$ 46,061,783	\$	\$ (127,523) \$ (28,177,552)	\$ 17,759,816
Issuance of									
common stock									
for services		24,072		3		100,147			100,150
Options									
exercised, net		680,809		68		617,932			618,000
Warrants									
exercised, net		19,520		2		32,692			32,694
Stock-based									
compensation						1,522,374			1,522,374
Repayment of									
advance							36,883		36,883
Issuance of									
common stock									
in exchange for									
cash in July, net									
of offering									
costs of									
\$1,739,589		5,203,860		520		15,352,630			15,353,150
Net loss							(11,593,045)		(11,593,045)
Balance -									
December 31,									
2012	\$	37,009,695	\$	3,701	\$	\$ 63,687,558	\$	\$ (90,640) \$ (39,770,597)	\$ 23,830,022
Issuance of									
common stock									
for services									
(unaudited)		22,752		2		88,048			88,050
Issuance of									
common stock									
of Luoxis for									
cash net of									
offering costs									
of \$757,258									
(Note 2)									
(unaudited)						2,494,521		439,519	2,934,040
Issuance of									
common stock									
of Luoxis in									
exchange for									
patents (Note 2)									
(unaudited)						42,510		7,490	50,000
Non-controlling									
interests on									
contributed									
assets									
(unaudited)						(10,739)		10,739	
Options									
exercised, net									
(unaudited)		50,417		5		116,746			116,751
Warrants									
exercised, net									
(unaudited)		2,920		1		13,606			13,607
Stock-based									
compensation									
(unaudited)						598,479			598,479
Net loss									
(unaudited)							(4,178,628)	(29,695)	(4,208,323)
Balance -									
March 31, 2013									
(unaudited)	\$	37,085,784		3,709	\$	\$ 67,030,729	\$	\$ (90,640) \$ (43,949,225)	\$ 428,053 \$ 23,422,626

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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES****(A Development Stage Company)****Consolidated Statements of Cash Flows****(unaudited)**

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	December 18, 2008 (Inception) through March 31, 2013
Cash flows from operating activities:			
Net loss	\$ (4,208,323)	\$ (2,835,876)	\$ (43,726,905)
Depreciation and amortization	18,463	15,599	123,410
Common stock issued for services	88,050	40,000	1,990,700
Stock-based compensation expense	598,479	200,241	5,401,721
Derivative expense (income)	126,478	(156,979)	2,843,978
Unrealized loss on fair value of debt instruments			5,547,911
Adjustments to reconcile net loss to net cash used in operating activities:			
(Increase) in prepaid expenses	(185,500)	(133,481)	(350,390)
Increase in related party payable			109,789
Increase (Decrease) in accounts payable	(31,322)	(224,173)	1,169,802
Increase (Decrease) in deferred revenue	(12,500)	(12,500)	418,750
Increase in accrued interest payable			16,948
Net cash used in operating activities	(3,606,175)	(3,107,169)	(26,454,286)
Cash flows used in investing activities:			
Purchase of fixed assets	(274,894)		(359,599)
Purchase of patents (Note 2)	(330,000)		(330,000)
Deposits			(20,000)
Net cash (used in) investing activities	(604,894)		(709,599)
Cash flows from financing activities:			
Proceeds from related party notes payable and debentures			2,593,000
Proceeds from sale of common stock	121,861		41,468,285
Costs related to sale of common stock			(4,357,142)
Proceeds from sale of Luoxis common stock (Note 2)	3,465,000		3,465,000
Costs related to sale of Luoxis common stock (Note 2)	(530,960)		(530,960)
Proceeds from common stock subscribed			177,003
Proceeds from sales of Series A Preferred Stock			1,115,020
Advances (to) from shareholders		36,883	(90,640)
Payment of liabilities assumed in asset purchase			(48,515)
Payment of related party notes			(100,000)
Increase in cash from acquisition			183
Net cash provided by financing activities	3,055,901	36,883	43,691,234
Net change in cash and cash equivalents	(1,155,168)	(3,070,286)	16,527,349
Cash and cash equivalents at beginning of period	17,682,517	11,362,325	

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Cash and cash equivalents at end of period	\$	16,527,349	\$	8,292,039	\$	16,527,349
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Supplementary cash flow information:

Interest paid	\$		\$		\$	8,358
Income taxes paid	\$		\$		\$	82,500

Non-cash transactions:

Liabilities assumed in asset purchase, recorded as a distribution	\$		\$		\$	248,515
Conversion of notes payable to Series A Preferred Stock	\$		\$		\$	200,000
Common stock issued for common stock subscriptions received	\$		\$		\$	177,003
Deferred charge recorded for common stock issued in exchange for services	\$		\$		\$	1,802,500
Issuance of Luoxis stock for patents (Note 2)	\$	50,000	\$		\$	50,000
Common stock issued for acquisition of DMI BioSciences, Inc.	\$		\$		\$	7,852,737
Conversion of debentures to common stock	\$		\$		\$	9,424,075
Warrant compensation from common stock offering costs	\$		\$		\$	1,068,858
Warrant compensation from Luoxis common stock offering costs (Note 2)	\$	226,298	\$		\$	226,298
Merger liability - shares exchanged for options	\$		\$		\$	574,000
Debenture warrant exercise fair value adjustment	\$	8,497	\$		\$	658,062

The accompanying notes are an integral part of these consolidated financial statements.

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AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 1 Business, Basis of Presentation and Merger

These unaudited financial statements represent the consolidated financial statements of Ampio Pharmaceuticals, Inc. (Ampio or the Company), formerly known as Chay Enterprises, Inc. (Chay), and its wholly-owned subsidiaries, DMI Life Sciences, Inc. (Life Sciences), DMI Acquisition Corp., DMI BioSciences, Inc. (BioSciences) and Luoxis Diagnostics, Inc. (Luoxis), an 85.02% owned subsidiary see Note 2. These unaudited consolidated financial statements should be read in conjunction with Ampio's annual report on Form 10-K for the year ended December 31, 2012, which included all disclosures required by generally accepted accounting principles. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position of Ampio and its results of operations and cash flows for the interim periods presented. The results of operations for the period ended March 31, 2013 are not necessarily indicative of expected operating results for the full year. The information presented throughout the document as of and for the period ended March 31, 2013 is unaudited.

Ampio is a development stage biopharmaceutical company focused on the rapid development of therapies to treat prevalent inflammatory conditions for which there are limited treatment options. We are developing compounds that decrease inflammation by (i) inhibition of specific pro-inflammatory compounds by affecting specific pathways at the protein expression and at the transcription level (ii) activation of a specific phosphatase or depletion of the available phosphate needed for the inflammation process and (iii) decreasing the vascular permeability an upstream event in the inflammation cascade.

Life Sciences was incorporated in the state of Delaware on December 18, 2008 and did not conduct any business activity until April 16, 2009, at which time Life Sciences purchased certain assigned intellectual property (including 107 patents and pending patent applications), business products and tangible property from BioSciences. Life Sciences issued 3,500,000 shares of its common stock to BioSciences, and assumed certain liabilities, as consideration for the assets purchased. The assets that Life Sciences acquired from BioSciences had a carrying value of zero, as BioSciences had expensed all of the research and development costs it incurred with respect to the intellectual property purchased. On March 2, 2010, Life Sciences merged with Chay Acquisitions, a wholly-owned subsidiary of Chay Enterprises, Inc., a public company (the Merger). Chay issued 15,068,942 shares of common stock to acquire Life Sciences, which resulted in the stockholders of Life Sciences owning approximately 95.7% of Chay's outstanding common stock after the consummation of the Merger and before taking into account the issuance of 1,325,000 additional shares of common stock. In conjunction with the Merger, Chay purchased 263,624 shares of its common stock from the Chay Control Shareholders for \$150,000 in cash.

As a result of the Merger, Life Sciences became a wholly owned subsidiary of Chay. For accounting purposes, the Merger was treated as a reverse acquisition with Life Sciences as the acquirer and Chay as the acquired party. The business and financial information included in this report is the business and financial information of Life Sciences. The accumulated deficit of Chay has been included in additional paid-in capital. Subsequent to the Merger, Chay Enterprises, Inc. was renamed Ampio Pharmaceuticals, Inc.

On March 23, 2011, Ampio acquired BioSciences (the BioSciences Merger). Biosciences' principal asset consisted of the worldwide rights to Zertane, as to which BioSciences held 32 issued patents and 31 pending patent applications. Zertane is a repurposed drug to treat male sexual dysfunction pertaining to premature ejaculation (PE) in men.

Ampio's activities, being primarily research and development and raising capital, have not generated significant revenue to date. Ampio is considered to be a development stage company.

Note 2 Formation of Subsidiary

On January 24, 2013, Ampio formed a wholly-owned subsidiary, Luoxis to focus on the development and commercialization of diagnostics utilizing Ampio's Oxidation Reduction Potential (ORP) technology platform and all related patents. The lead asset utilizes the ORP technology to indicate disease severity and progression across a wide range of critical and chronic illnesses.

Luoxis has been initially funded through a private placement launched on February 15, 2013. On March 15, 2013, an initial closing was completed. A total of 3,465,000 shares were issued at \$1.00 per share resulting in \$3,465,000 of gross proceeds. Net proceeds were \$2,934,040 after placement agent and legal fees. The placement agent will also receive 346,500 warrants to purchase

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Luoxis common stock valued at \$226,298 in connection with the closing, which amount has been included in total offering costs in the consolidated statement of changes in stockholders' equity (deficit). The warrants have a term of 5 years and an exercise price of \$1.00. The warrants are issuable at the final closing and exercisable one year thereafter. Concurrent with this closing, \$330,000 was paid to Trauma Research LLC and 50,000 shares of Luoxis common stock valued at \$50,000 was issued to Institute for Molecular Medicine, Inc., both related parties, for assignment of all diagnostic patents previously licensed by Ampio. The patents will be amortized over an overall estimated life of 15 years.

As a result of the initial private placement closing, on March 31, 2013, Ampio owned 85.02% of Luoxis. The consolidated financial statements include Luoxis since Ampio has a controlling financial interest, however, the third-party holdings (14.98%) are referred to as non-controlling interests.

Note 3 License Agreement/Revenue Recognition

On September 8, 2011, Ampio entered into a license, development and commercialization agreement, effective as of August 23, 2011, with a major Korean pharmaceutical company. The agreement grants the pharmaceutical company exclusive rights to market Zertane in South Korea for the treatment of PE and for a combination drug to be developed, utilizing Zertane and an erectile dysfunction drug.

Upon signing of the agreement, Ampio received a \$500,000 upfront payment, the net proceeds of which were \$417,500 after withholding of Korean tax. The upfront payment has been deferred and is being recognized as license revenue over a ten year period. Milestone payments of \$3,200,000 will be earned and recognized contingent upon achievement of regulatory approvals and cumulative net sales targets, which may take several years. In addition, Ampio will earn a royalty based on 25% of net sales, as defined, if the royalty exceeds the transfer price of the Zertane product.

Note 4 - Derivative Financial Instruments

Ampio issued senior convertible unsecured debentures and related warrants in five tranches between August 2010 and January 2011 (the Senior Convertible Debentures). On February 28, 2011, Ampio's Senior Convertible Debentures were converted to 1,281,852 shares of common stock. The related warrants and the components of warrant derivative liability as reflected in the balance sheet as of March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013		December 31, 2012	
	Indexed Shares	Fair Values	Indexed Shares	Fair Values
Ampio's financings giving rise to derivative financial instruments:				
Warrants (dates correspond to hybrid financing):				
Tranche 1 - August 10, 2010	51,215	\$ 117,910	51,215	\$ 116,635
Tranche 2 - October 22, 2010-October 29, 2010				
Tranche 3 - November 12, 2010-November 29, 2010	63,514	284,393	66,434	195,813
Tranche 4 - December 13, 2010-December 29, 2010	13,686	48,615	13,686	33,913
Tranche 5 - January 20, 2011-January 31, 2011	29,344	51,834	29,344	38,410
	157,759	\$ 502,752	160,679	\$ 384,771

Ampio elected to measure the Senior Convertible Debentures at fair value in their entirety, rather than bifurcating the conversion option. The fair value of the hybrid debt instrument comprises the present value of the principal and coupon enhanced by the conversion option. Both the warrants and the conversion options embedded in the hybrid debt instruments were valued using a binomial-lattice-based valuation model. The lattice-based valuation technique was utilized because it embodies all of the requisite assumptions (including the underlying price, exercise price, term, volatility, and risk-free interest-rate) that are necessary to fair value these instruments. For forward contracts that contingently require net-cash settlement as the principal means of settlement, Ampio projects and discounts future cash flows applying probability-weighting to multiple possible outcomes. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are highly volatile and sensitive to changes in the trading market price of Ampio's common stock, which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair value, Ampio's income will reflect

the volatility in these estimate and assumption changes.

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The following table summarizes the effects on Ampio's unrealized (gain) loss associated with the warrants recorded at fair value by type of financing for the three months ended March 31, 2013 and 2012, respectively:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Warrants (dates correspond to financing)		
Tranche 1 - August 10, 2010	\$ 1,275	\$ (48,279)
Tranche 2 - October 22, 2010-October 29, 2010		(6,589)
Tranche 3 - November 12, 2010-November 29, 2010	97,077	(75,266)
Tranche 4 - December 13, 2010-December 29, 2010	14,702	(12,744)
Tranche 5 - January 20, 2011-January 31, 2011	13,424	(14,101)
	\$ 126,478	\$ (156,979)

Note 5 Fair Value Considerations

Ampio's financial instruments include cash and cash equivalents, accounts payable and warrant derivative liability. The carrying amounts of cash and cash equivalents, and accounts payable approximate their fair value due to their short maturities. Derivative financial instruments, as defined by GAAP, consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets, with changes in fair value recorded in earnings.

Ampio generally does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, Ampio has entered into certain other financial instruments and contracts, such as Ampio's previously outstanding secured convertible debenture and warrant financing arrangements that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by GAAP, these instruments are required to be carried as derivative liabilities, at fair value, in Ampio's financial statements. However, Ampio may elect fair value measurement of the hybrid financial instruments, on a case-by-case basis, rather than bifurcate the derivative. Ampio believes that fair value measurement of the hybrid convertible debenture financing arrangements provide a more meaningful presentation.

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of Ampio. Unobservable inputs are inputs that reflect our assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on reliability of the inputs as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets that are accessible to Ampio for identical assets or liabilities;
- Level 2: Inputs include quoted prices for similar assets and liabilities in active or inactive markets or that are observable for the asset or liability either directly or indirectly; and
- Level 3: Unobservable inputs that are supported by little or no market activity.

Ampio's assets and liabilities which are measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Ampio's policy is to recognize transfers in and/or out of fair value hierarchy as of the date in which the event or change in circumstances caused the transfer. Ampio has consistently applied the valuation techniques discussed below in all periods presented.

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The following table presents Ampio's financial liabilities that were accounted for at fair value on a recurring basis as of March 31, 2013 and December 31, 2012, by level within the fair value hierarchy:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
March 31, 2013				
LIABILITIES				
Warrant derivative liabilities			\$ 502,752	\$ 502,752

December 31, 2012

LIABILITIES				
Warrant derivative liabilities			\$ 384,771	\$ 384,771

The warrant derivative liability for the warrants associated with debt was valued using the binomial lattice-based valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions in valuing the warrant liability were as follows as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Warrants (All Tranches):		
Exercise price	\$1.75	\$1.75
Volatility	143.37%	148.60%
Equivalent term (years)	0.36 - 0.84	0.61 - 1.08
Risk-free interest rate	0.11%	0.16%

The following table sets forth a reconciliation of changes in the fair value of financial liabilities classified as Level 3 in the fair valued hierarchy:

	Derivative and Hybrid Debt Instruments
Balance as of December 31, 2012	\$ (384,771)
Total realized losses:	
Included in earnings	(126,478)
Warrant exercises	8,497
Balance as of March 31, 2013	\$ (502,752)

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Commitments and contingencies are described below and summarized by the following table:

	Total	Due in Less than 1 Year	Due 1-3 Years	Due 3-5 Years	More than 5 Years
Clinical research and trial obligations	\$ 8,796,732	\$ 8,796,732	\$	\$	\$
Sponsored research agreement with related party	\$ 373,646	\$ 263,750	\$ 109,896	\$	\$
Office lease	\$ 146,320	\$ 109,536	\$ 37,750	\$	\$
Officers employment agreements	\$ 1,055,416	\$ 449,166	\$ 606,250	\$	\$
	\$ 10,372,114	\$ 9,619,184	\$ 753,896	\$	\$

Clinical Research and Trial Obligations

In connection with clinical trials for Ampion and Optina, both of which began in the first quarter of 2013, Ampio has remaining commitments of \$2,478,480 on contracts related to the Ampion clinical trial and \$5,903,619 on contracts related to the Optina clinical trial. Ampio also has a contract related to the production of the Zertane study drug with a remaining commitment of \$414,633.

Sponsored Research Agreement with Related Party

Ampio entered into a Sponsored Research Agreement with Trauma Research LLC, a related party, in September 2009. Under the terms of the Sponsored Research Agreement, Ampio is to provide personnel and pay for leased equipment. The Sponsored Research Agreement may be terminated without cause by either party on 180 day notice.

Leases

On May 20, 2011, Ampio entered into a 38 month non-cancellable operating lease for office space effective June 1, 2011. Commitments include the annual operating expense increase for 2013. Rent expense for the respective periods are as follows:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Rent expense	\$ 29,560	\$ 20,323

Employment Agreements

As of March 31, 2013, Ampio has employment agreements with four of its executive officers. Under the employment agreements, the executive officers are collectively entitled to receive \$955,000 in annual salaries. The employment agreements expire July 2013 with respect to our chief scientific officer and chief regulatory affairs officer, January 2015 with respect to our chief executive officer and December 2015 with respect to our chief operating officer. The portion of the salary due to our chief scientific officer that is included in the Sponsored Research Agreement with Trauma Research LLC is excluded from the officers' employment agreements commitment.

Ampio has not recorded an accrual for compensated absences because the amount cannot be reasonably estimated.

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Note 7 Common Stock

Capital Stock

At March 31, 2013 and December 31, 2012, Ampio had 100,000,000 shares of common stock authorized with a par value of \$0.0001 per share and 10,000,000 shares of preferred stock authorized with a par value of \$0.0001 per share.

Shelf Registration

On September 30, 2011, Ampio filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to register Ampio common stock and warrants in an aggregate amount of up to \$80 million for offering from time to time in the future. The registration statement also registers for possible resale up to one million shares of common stock to be sold by directors and management (as selling shareholders) in future public offerings. On October 13, 2011 Ampio filed an amendment to identify potential selling stockholders and the number of shares they would be eligible to sell in the event of a future public offering. The shelf registration was declared effective on October 28, 2011 by the Securities and Exchange Commission. At March 31, 2013, Ampio had \$53.7 million available for future public offerings along with 714,900 shares remaining for future sale by named selling shareholders.

Underwritten Public Offering

On July 18, 2012, Ampio completed an underwritten public offering for the sale of 5,203,860 shares of common stock at a price of \$3.25 per share. Gross proceeds to the Company were \$16,912,545 with net proceeds of \$15,353,150 after underwriter fees and cash offering expenses. Ampio also issued warrants to purchase 138,462 shares of common stock to the underwriters. These warrants have an exercise price of \$4.0625 and can be exercised from the period July 12, 2013 through July 12, 2017.

Registered Direct Offering

On December 27, 2011, Ampio completed a registered direct offering of its common stock. A total of 2,220,255 shares were issued at \$4.25 per share resulting in gross proceeds of \$9,436,084, of which Ampio received net proceeds of \$8,454,001, after placement agent commissions, non-accountable expenses and other offering costs.

Private Placement Offering

On March 31, April 8 and April 18, 2011, Ampio closed private placements of its common stock (the 2011 Private Placement). A total of 5,092,880 shares of common stock were issued resulting in gross proceeds of \$12,732,200, of which the Company received net proceeds of \$10,916,538, after placement agent commissions, non-accountable expenses and other offering costs. In connection with the private placements, the placement agent also received 509,288 warrants to purchase common stock with a fair value of \$888,664.

Note 8 - Equity Instruments

Options

Ampio adopted a stock plan in March 2010. The number of shares of common stock reserved for issuance to officers, directors, employees and consultants through various means, including incentive stock options, non-qualified stock options, restricted stock grants, and other forms of equity equivalents is currently 8,200,000 shares.

Ampio has computed the fair value of all options granted using the Black-Scholes option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding components of the model, including the estimated fair value of the underlying common stock, risk-free interest rate, volatility, expected dividend yield and expected option life. Changes to the assumptions could cause significant adjustments to valuation. Ampio estimated a volatility factor utilizing a weighted average of comparable published volatilities of peer companies. Due to the small number of option holders, Ampio has estimated a forfeiture rate of zero. Ampio estimates the expected term based on the average of the vesting term and the contractual term of the options. The

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risk-free interest rate is based on the U.S. Treasury yield in effect at the time of the grant for treasury securities of similar maturity. Ampio has computed the fair value of all options granted during the three months ended March 31, 2013 using the following assumptions:

Expected volatility	70% - 89%
Risk free interest rate	0.40% - 1.27%
Expected term (years)	3.0 - 6.5
Dividend yield	0%

Stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Fair Value
Outstanding December 31, 2011	3,832,874	\$ 2.75	7.31	\$ 3,443,616
Granted	2,095,000	\$ 2.97		
Exercised	(715,476)	\$ (1.07)		
Forfeited	(256,250)	\$ (4.04)		
Expired	(33,333)	\$ (5.96)		
Outstanding December 31, 2012	4,922,815	\$ 2.25	8.36	\$ 7,132,347
Granted	165,000	\$ 3.97		
Exercised	(50,417)	\$ (2.32)		
Forfeited	(10,833)	\$ (2.76)		
Outstanding March 31, 2013	5,026,565	\$ 2.17	7.59	\$ 7,532,810
Exercisable at March 31, 2013	3,661,845	\$ 1.84	6.97	\$ 4,378,904
Available for grant at March 31, 2013	2,080,146			

Stock-based compensation expense related to the fair value of stock options was included in the statement of operations as research and development expenses and general and administrative expenses as set forth in the table below. Ampio determined the fair value as of the date of grant using the Black-Scholes option pricing method and expenses the fair value ratably over the vesting period.

The following table summarizes stock-based compensation expense for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
Research and development expenses		
Stock options	\$ 154,691	\$ 57,303
General and administrative expenses		
Common stock issued for services	88,050	40,000
Stock options	443,788	142,938
	\$ 686,529	\$ 240,241

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Unrecognized expenses at March 31, 2013	\$ 2,934,224
Weighted average remaining years to vest	2.14

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Warrants

Ampio issued warrants in conjunction with its Senior Convertible Debentures, 2011 Private Placements and an underwritten public offering as follows: