

Ampio Pharmaceuticals, Inc.
Form 10-Q
August 07, 2015
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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: June 30, 2015

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)

Delaware
(State or other jurisdiction of
incorporation or organization)
373 Inverness Parkway, Suite 200
Englewood, Colorado 80112
(Address of principal executive offices, including zip code)
(720) 437-6500
(Registrant's telephone number, including area code)

26-0179592
(IRS Employer
Identification 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 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 Accelerated filer
Non-accelerated filer Smaller Reporting Company
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 August 1, 2015, there were 51,998,306 shares outstanding of Common Stock, par value \$0.0001, of the registrant.

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AND SUBSIDIARIES
FOR THE QUARTER ENDED JUNE 30, 2015
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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 clinical trials for our product candidates, 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;

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 beneficial license, co-development, collaboration or similar arrangements; and

progress of our manufacturing facility/clean room.

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; and

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, Luoxis, Vyrix, Aytu and Rosewind, which are protected under applicable intellectual property laws and are our property or the property of our subsidiaries. Solely for convenience, our trademarks and trade names 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 trade names.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 36,783,380	\$ 50,320,656
Prepaid expenses and other	1,344,328	672,716
Prepaid research and development related party (Note 7)	265,785	265,785
Total current assets	38,393,493	51,259,157
Fixed assets, net (Note 2)		
In-process research and development	9,628,560	9,945,428
ProstaScint asset	7,500,000	7,500,000
Patents, net	1,000,000	664,169
Long-term portion of prepaid research and development related party (Note 7)	628,776	664,169
Deposits	730,908	863,802
	38,742	35,854
	19,526,986	19,009,253
Total assets	\$ 57,920,479	\$ 70,268,410
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 2,466,920	\$ 3,299,025
Accrued compensation	923,087	235,665
Deferred rent	59,526	59,579
Deferred revenue	85,714	85,714
Total current liabilities	3,535,247	3,679,983
Long-term deferred rent	646,976	661,160
Long-term deferred revenue	425,893	468,749
Total liabilities	4,608,116	4,809,892
Commitments and contingencies (Note 4)		

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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 51,998,306 in 2015 and 51,972,266 in 2014	5,200	5,197
Additional paid-in capital	167,975,967	168,108,278
Advances to stockholders	(90,640)	(90,640)
Accumulated deficit	(116,543,580)	(101,904,570)
Total Ampio stockholders' equity	51,346,947	66,118,265
Non-controlling interests	1,965,416	(659,747)
Total equity	53,312,363	65,458,518
Total liabilities and equity	\$ 57,920,479	\$ 70,268,410

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue				
License revenue	\$ 21,427	\$ 21,429	\$ 42,856	\$ 33,929
Product and service revenue	163,008		163,008	
Total revenue	184,435	21,429	205,864	33,929
Operating Expenses				
Cost of sales	87,884		87,884	
Research and development	3,727,414	5,567,559	8,303,682	13,361,967
Research and development related party (Note 7)	83,948	66,446	167,897	77,521
General and administrative	4,007,195	3,327,625	6,968,253	6,009,899
Loss from operations	(7,722,006)	(8,940,201)	(15,321,852)	(19,415,458)
Other income				
Interest income	8,328	7,505	16,753	11,000
Total other income	8,328	7,505	16,753	11,000
Net loss	(7,713,678)	(8,932,696)	(15,305,099)	(19,404,458)
Net loss applicable to non-controlling interests	358,252	241,176	666,089	470,755
Net loss applicable to Ampio	\$ (7,355,426)	\$ (8,691,520)	\$ (14,639,010)	\$ (18,933,703)
Weighted average number of Ampio common shares outstanding				
	51,989,986	51,917,528	51,985,687	48,453,144
Basic and diluted Ampio net loss per common share				
	\$ (0.14)	\$ (0.17)	\$ (0.28)	\$ (0.39)

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

Table of Contents**AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity (Deficit)**

	Series A Preferred Stock	Common Stock	Additional	Advances	Accumulated	Non-controlling	Total
	Shares	Shares	Paid-in	to	Deficit	Interests	Stockholders
	Amount	Amount	Capital	Stockholders			Equity
Balance December 31, 2014	\$ 51,972,266	\$ 5,197	\$ 168,108,278	\$ (90,640)	\$ (101,904,570)	\$ (659,747)	\$ 65,458,518
Common stock issued for services (unaudited)		7,998	1	29,999			30,000
Options exercised, net (unaudited)		10,416	1	28,748			28,749
Warrants exercised, net (unaudited)		7,626	1				1
Stock-based compensation (unaudited)				3,147,684			3,147,684
Liabilities paid pursuant to merger (unaudited)				(20,014)			(20,014)
Luoxis options paid pursuant to merger (unaudited)				(27,476)			(27,476)
Non-controlling interests on contributed assets (unaudited)				(3,291,252)		3,291,252	
Net loss (unaudited)					(14,639,010)	(666,089)	(15,305,099)
Balance June 30, 2015 (unaudited)	\$ 51,998,306	\$ 5,200	\$ 167,975,967	\$ (90,640)	\$ (116,543,580)	\$ 1,965,416	\$ 53,312,363

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

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

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net loss	\$ (15,305,099)	\$ (19,404,458)
Stock-based compensation expense	3,147,684	2,626,905
Depreciation and amortization	461,572	83,075
Amortization of prepaid research and development related party (Note 7)	132,894	77,521
Common stock issued for services	30,000	30,000
Adjustments to reconcile net loss to net cash used in operating activities:		
(Increase) decrease in prepaid expenses and other	(671,612)	(1,020,948)
(Increase) in prepaid research and development related party (Note 7)		(890,000)
(Decrease) increase in accounts payable	(856,964)	198,671
(Decrease) increase in deferred rent	(14,237)	350,073
(Decrease) increase in deferred revenue	(42,856)	216,071
Increase (decrease) in accrued compensation	687,422	(485,002)
Net cash used in operating activities	(12,431,196)	(18,218,092)
Cash flows used in investing activities:		
Purchase of fixed assets	(84,451)	(5,898,866)
ProstaScint asset purchase	(1,000,000)	
Deposits	(2,888)	
Net cash used in investing activities	(1,087,339)	(5,898,866)
Cash flows from financing activities:		
Proceeds from sale of common stock		68,442,553
Costs related to sale of common stock		(4,999,777)
Proceeds from option exercise	28,749	
Liability payout pursuant to merger	(20,014)	
Luoxis option payout pursuant to merger	(27,476)	
Net cash (used in) provided by financing activities	(18,741)	63,442,776
Net change in cash and cash equivalents	(13,537,276)	39,325,818
Cash and cash equivalents at beginning of period	50,320,656	26,309,449
Cash and cash equivalents at end of period	\$ 36,783,380	\$ 65,635,267
Non-cash transactions:		
Fixed asset purchases included in accounts payable	\$ 24,860	\$ 1,537,903
	\$	\$ 450,000

Related party research and development liability included in prepaid
research and development related party

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

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AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(unaudited)

Note 1 Basis of Presentation, Merger and Business

Basis of Presentation

These unaudited financial statements represent the consolidated financial statements of Ampio Pharmaceuticals, Inc. (Ampio or the Company) and Aytu BioScience, Inc. (Aytu), a 81.5% owned subsidiary. 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, 2014, 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 subsidiary on a consolidated basis and the consolidated results of operations and cash flows for the interim periods presented. The results of operations for the period ended June 30, 2015 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 June 30, 2015 is unaudited. Ampio's activities, being primarily research and development and raising capital, have not generated significant revenue to date.

New Merger/Subsidiary

Aytu BioScience, Inc.

On April 16, 2015, Luoxis Diagnostics, Inc. (Luoxis) and Vyrix Pharmaceuticals, Inc. (Vyrix), each previously a subsidiary of Ampio, entered into an Agreement and Plan of Merger (the Merger Agreement) by and among Rosewind Corporation, a Colorado corporation and public company (Rosewind), Luoxis, Vyrix, two major stockholders of Rosewind and two subsidiaries of Rosewind created solely for the purposes of the Merger (as defined below), and which did not survive the Merger.

In the first stage of the transaction, each of Luoxis and Vyrix merged with and into one of Rosewind's merger subsidiaries. Luoxis and Vyrix survived these mergers. The outstanding shares of stock of Luoxis and the outstanding shares of stock of Vyrix were converted into the right to receive shares of common stock in Rosewind. The Luoxis stock and the Vyrix stock were each converted at an exchange factor. The exchange factor for each of them was determined upon the basis of a relative value opinion obtained by Ampio prior to the Merger. The outstanding shares of Rosewind's merger subsidiary that merged with Luoxis were converted into shares of Luoxis as the surviving corporation. The outstanding shares of Rosewind's merger subsidiary that merged with Vyrix were converted into shares of Vyrix as the surviving corporation. After completion of the first stage of the transaction, Luoxis and Vyrix were wholly-owned subsidiaries of Rosewind.

In the second stage of the transaction, which occurred on the same day as the first stage of the transaction, each of Luoxis and Vyrix was merged with and into Rosewind, with Rosewind surviving. The first and second stage mergers are referred to collectively as the Merger. Following the consummation of the Merger, Ampio became the holder of 81.5% of the common stock of Rosewind.

Pursuant to the Merger, Rosewind changed its fiscal year end from August 31 to June 30.

On June 1, 2015, the Rosewind shareholders voted to change the state of incorporation from Colorado to Delaware and to change Rosewind's name to Aytu BioScience, Inc., which was effective June 8, 2015. Along with the reincorporation, Aytu now has 300 million authorized shares of common stock with a par value of \$0.0001 per share and 50 million authorized shares of preferred stock with a par value of \$0.0001 per share. The Aytu shareholders also approved the 2015 Stock Option and Incentive Plan, which provides for the award of stock options, stock appreciation rights, restricted stock and other equity awards for up to an aggregate of 10,000,000 shares of common stock. The shares of common stock underlying any awards that are forfeited, canceled, reacquired by Aytu prior to vesting, satisfied without any issuance of stock, expire or are otherwise terminated (other than by exercise) under the 2015 Plan will be added back to the shares of common stock available for issuance under the 2015 Plan. At the time of this filing, no options under the Aytu 2015 Stock Option and Incentive Plan had been granted.

On June 1, 2015, the Rosewind shareholders voted and approved a reverse stock split that was in effect on June 8, 2015. The reverse stock split was at a ratio of one new share for every 12.174 shares outstanding.

Asset Acquisition ProstaScint

In May 2015, Aytu entered into and closed on an Asset Purchase Agreement with Jazz Pharmaceuticals, Inc. (the Seller). Pursuant to the agreement, Aytu purchased assets related to the Seller's product known as ProstaScint (capromab pendetide), including certain intellectual property and contracts, and the product approvals, inventory and work in progress (together, the ProstaScint Business), and assumed certain of the Seller's liabilities, including those related to product approvals and the sale and marketing of ProstaScint.

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The purchase price consists of the upfront payment of \$1.0 million. Aytu also agreed to pay an additional \$500,000 payable within five days after transfer for the ProstaScint-related product inventory and \$227,000 payable on September 30, 2015 (which represents a portion of certain FDA fees). Aytu also will pay 8% on its net sales made after October 31, 2017, payable up to a maximum aggregate payment of an additional \$2.5 million. The accounting for this business combination is not yet complete and the amount assigned to the assets acquired is provisional because the final appraisal report has not been received at the time of this filing.

Newly Issued Accounting Pronouncements

In June 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-10, Technical Corrections and Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost. In addition, some of the amendments will make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon issuance. We are evaluating the impact of ASU 2015-10 on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. We are evaluating the impact of ASU 2015-03 on our consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The purpose of this amendment is to eliminate the concept of extraordinary items. As a result, an entity will no longer be required to separately classify, present and disclose extraordinary events and transactions. The amendment is effective for annual reporting periods beginning after December 15, 2015 and subsequent interim periods with early application permitted. Management is currently assessing the impact the adoption of ASU 2015-01 will have on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Management is currently assessing the impact the adoption of ASU 2014-15 will have on our financial statements.

In May 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers . The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance will be effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted but not prior to the original public organization effective date of December 15, 2016. We are currently evaluating the

accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Business

Ampio is a biopharmaceutical company focused primarily on developing compounds that decrease inflammation by (i) inhibiting specific pro-inflammatory compounds by affecting specific pathways at the protein expression and at the transcription level; (ii) activating specific phosphatase or depleting available phosphate needed for the inflammation process; and (iii) decreasing vascular permeability. Through Aytu, Ampio is also focused on monetizing its sexual dysfunction portfolio and diagnostic platform.

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Fixed assets are recorded at cost and, once placed in service, are depreciated on the straight-line method over the estimated useful lives. Fixed assets consist of the following:

	Estimated Useful Lives in years	As of June 30, 2015	As of December 31, 2014
Manufacturing Facility/Clean Room-in progress	8	\$ 2,734,000	\$ 2,684,000
Leasehold improvements	10	6,075,000	6,064,000
Office furniture and equipment	3-10	556,000	556,000
Lab equipment	5	1,109,000	1,060,000
Less accumulated depreciation		(845,000)	(419,000)
Fixed assets, net		\$ 9,629,000	\$ 9,945,000

Note 3 License Agreement/Revenue Recognition

Ampio has not generated significant revenue in its operating history. The \$21,000 license revenue recognized in the 2015 quarter and 2014 quarter, respectively, and the \$43,000 and \$34,000 license revenue recognized in the 2015 period and 2014 period, respectively, represents the amortization of the upfront payments received on Ampio's license agreements. The initial payment of \$500,000 from the license agreement of Zertane with a Korean pharmaceutical company was deferred and is being recognized over ten years. The initial payment of \$250,000 from the license agreement of Zertane with a Canadian-based supplier was deferred and is being recognized over seven years.

The \$163,000 product and service revenue recognized in the 2015 quarter and six month period represents sales from Ampio's Aytu segment which includes the ProstaScint product and the RedoxSYS System.

Note 4 Commitments and Contingencies

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

	Total	Remaining 2015	2016	2017	2018	2019	Thereafter
Ampion supply agreement	\$ 5,696,000	\$ 596,000	\$	\$ 2,550,000	\$ 2,550,000	\$	\$
Clinical research and trial obligations	5,516,000	4,520,000	996,000				
Facility lease	3,227,000	211,000	332,000	342,000	337,000	326,000	1,679,000
Sponsored research agreement with	1,534,000	198,000	395,000	395,000	395,000	151,000	

related party							
ProstaScint							
inventory							
transfer fee	500,000	500,000					
ProstaScint							
FDA fees	227,000	227,000					
Aytu							
manufacturing							
and commercial							
development	133,000	133,000					
	\$ 16,833,000	\$ 6,385,000	\$ 1,723,000	\$ 3,287,000	\$ 3,282,000	\$ 477,000	\$ 1,679,000

Ampion Supply Agreement

In connection with the manufacturing facility/clean room, in October 2013, Ampio entered into a human serum albumin ingredient and purchase sale agreement with a remaining commitment of \$5,696,000. Per an amendment to the original agreement, Ampio is not committed to take its full allocation in 2015 and no purchases in 2016.

Clinical Research and Trial Obligations

In connection with upcoming clinical trials, as of June 30, 2015, Ampio has a remaining commitment of \$5,037,000 on contracts related to the Ampion study trial expense and \$150,000 remaining contract commitments related to the Optina study trial expense. The clinical trial and research studies related to Aytu have a remaining commitment of \$329,000.

Facility Lease

On December 13, 2013, Ampio entered into a 125 month non-cancellable operating lease for new office space and the manufacturing facility effective May 1, 2014. The new lease has initial base rent of \$23,000 per month, with the total base rent over

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the term of the lease of approximately \$3.3 million and includes rent abatements and leasehold incentives. The Company recognizes rental expense of the facility on a straight-line basis over the term of the lease. Differences between the straight-line net expenses on rent payments are classified as liabilities between current deferred rent and long-term deferred rent. Rent expense for the respective periods is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Rent expense	\$ 71,000	\$ 92,000	\$ 138,000	\$ 122,000

Sponsored Research Agreement with Related Party

Ampio entered into a Sponsored Research Agreement with Trauma Research LLC (TRLLC), 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 days notice. As further noted in Note 7 Related Party Transactions, in March 2014, the Sponsored Research Agreement was extended through March 2019, including a no termination period through March 2017. In a subsequent Addendum, the parties also agreed to increase the equivalent value of the personnel provided by Ampio from \$264,000 to \$325,000 per year.

ProstaScint Inventory Transfer Fee

Aytu is obligated to pay \$500,000 for the ProstaScint-related product inventory upon the inventory transfer in July 2015.

ProstaScint FDA Fees

Aytu is obligated to pay \$227,000 for the ProstaScint-related FDA fees on September 30, 2015.

Aytu Manufacturing and Commercial Development

Aytu entered into agreements with manufacturing companies to build its RedoxSYS System. The current remaining commitment is \$133,000.

Note 5 Common Stock***Capital Stock***

At June 30, 2015 and December 31, 2014, Ampio had 100.0 million shares of common stock authorized with a par value of \$0.0001 per share and 10.0 million shares of preferred stock authorized with a par value of \$0.0001 per share.

Shelf Registration

In December 2013, 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 \$100.0 million for offering from time to time in the future, as well as 1.5 million shares of common stock available for sale by selling shareholders. The shelf registration was declared effective in January 2014 by the Securities and Exchange

Commission. As a result of equity raises, approximately \$86.3 million remains available under the Form S-3 filed in December 2013.

Underwritten Public Offerings

In March 2014, Ampio completed an underwritten public offering for the sale of 9,775,000 shares of common stock at a price of \$7.00 per share. Gross proceeds to the Company were \$68.4 million with net proceeds of \$63.4 million after underwriter fees and cash offering expenses.

Table of Contents***Common Stock Issued for Services***

Ampio issued 7,998 and 4,209 shares valued at \$30,000 for non-employee directors as part of their director fees for the six months ended June 30, 2015 and 2014, respectively.

Note 6 Equity Instruments***Options***

In 2010, Ampio shareholders approved the adoption of a stock and option award plan (the 2010 Plan), under which shares were reserved for future issuance under restricted stock awards, options, and other equity awards. The 2010 Plan permits grants of equity awards to employees, directors and consultants. The shareholders have approved a total of 11.7 million shares reserved for issuance under the 2010 plan.

In April 2015, the Company modified options held by a former executive which accelerated vesting of 111,160 options and extended the exercise period from 90 days after termination to April 15, 2020. All of the \$692,000 expense related to this modification was recognized in the period ended June 30, 2015.

In May 2015, the Company modified options held by a former executive which extended the exercise period from August 15, 2015 to August 15, 2016. All of the \$126,000 expense related to this modification was recognized in the period ended June 30, 2015.

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 calculates its volatility assumption using the actual changes in the market value of our stock. Ampio has estimated a forfeiture rate of 5.7% based upon historical experience; this is an estimate of options granted that are expected to be forfeited or cancelled before becoming fully vested. Ampio estimates the expected term based on the average of the vesting term and the contractual term of the options. The 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. During the six months ended June 30, 2015, Ampio granted 30,000 options at a price of \$3.46 to employees which represented the fair market value on date of the grants and 33,000 options at a price of \$2.47 to employees which represented the fair market value on date of grant. Ampio has computed the fair value of all options granted during the six months ended June 30, 2015 using the following assumptions:

Expected volatility	104% - 113%
Risk free interest rate	1.50%
Expected term (years)	5.0 - 6.0
Dividend yield	0%

Ampio stock option activity is as follows:

Number of Options	Weighted Average	Weighted Average Remaining	Aggregate Fair
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		Exercise Price	Contractual Life	Value
Outstanding December 31, 2014	6,568,248	\$ 3.82	7.66	\$ 17,090,000
Granted	63,000	\$ 2.94		
Exercised	(10,416)	\$ 2.76		
Forfeited/Cancelled	(60,000)	\$ 3.53		
Outstanding June 30, 2015	6,560,832	\$ 3.82	6.90	\$ 17,063,000
Exercisable at June 30, 2015	5,632,074	\$ 3.56	6.56	\$ 13,310,000
Available for grant at June 30, 2015	3,744,773			

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Stock options outstanding and exercisable at June 30, 2015 are summarized in the table below:

Range of Exercise Prices	Number of Options Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Lives
\$1.03 - \$4.00	4,385,832	\$ 2.32	6.33
\$4.01 - \$7.00	1,240,000	\$ 6.17	8.34
\$7.01 - \$8.93	935,000	\$ 7.73	7.67
	6,560,832	\$ 3.82	6.90

The outstanding options in the Luoxis and Vyrix 2013 Option Plans were accelerated and cancelled in connection with the Merger. Option holders received a cash payment per option share equal to the difference between the consideration payable per share of common stock pursuant to the Merger and the exercise price of the option, if the consideration paid to holders of common stock was less than the exercise price of such options, no amount was paid to the option holder in connection with the cancellation. The cash payment during the period ended June 30, 2015 was \$27,000. The unrecognized compensation of \$1.3 million related to the Luoxis and Vyrix options that had not vested as of the Merger date will not be recognized.

At the time of this filing, no options under the Aytu 2015 Stock Option and Incentive Plan had been granted.

Stock-based compensation expense related to the fair value of stock options was included in the consolidated statements of operations as research and development expenses and general and administrative expenses as set forth in the table below. Ampio and its subsidiary determined the fair value as of the date of grant using the Black-Scholes option pricing model and expenses the fair value ratably over the vesting period. The following table summarizes stock-based compensation expense for the six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Research and development expenses				
Stock options				
Ampio	\$ 449,000	\$ 399,000	\$ 1,057,000	\$ 1,038,000
Aytu	42,000	60,000	157,000	141,000
General and administrative expenses				
Common stock issued for services			30,000	30,000
Stock options				
Ampio	1,192,000	1,092,000	1,729,000	1,391,000
Aytu	48,000	54,000	205,000	57,000
	\$ 1,731,000	\$ 1,605,000	\$ 3,178,000	\$ 2,657,000

Unrecognized expense at June 30, 2015

Ampio \$ 1,638,740

Weighted average remaining years to vest

Ampio 0.86

Warrants

Ampio issued warrants in conjunction with its Senior Convertible Debentures, 2011 Private Placements and an underwritten public offering. A summary of all Ampio warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding December 31, 2014	516,329	\$ 3.26	1.44
Warrants exercised Private/Registered Direct Placements	(17,253)	\$ 3.94	
Outstanding June 30, 2015	499,076	\$ 3.24	0.91

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Luoxis had 465,250 warrants with an exercise price of \$1.00 which were converted into Aytu warrants to purchase 102,613 shares of common stock at a price of \$4.53. This conversion occurred in April 2015 when the Aytu transaction closed. These warrants have been adjusted to reflect the reverse stock split which occurred in June 2015. All of these warrants remain outstanding with a weighted average remaining contractual life of 2.92.

Note 7 Related Party Transactions

Ampio entered into a sponsored research agreement with TRLLC, an entity controlled by Ampio's director and Chief Scientific Officer, Dr. Bar-Or, in September 2009, which has been amended six times with the last amendment occurring in January 2015. Under the amended terms of the research agreement, Ampio will provide personnel with an equivalent value of \$325,000 per year. With the fifth amendment, Ampio also paid a sum of \$725,000 in 2014 which is being amortized over the contractual term of 60.5 months and is divided between current and long-term on the balance sheet. In return, TRLLC will assign any intellectual property rights it develops on Ampio's behalf under the research agreement and undertake additional activities to support Ampio's commercial activities and business plan. This agreement is set to expire in March 2019 and cannot be terminated prior to March 2017.

In June 2013, the TRLLC agreement was amended to include Luoxis, which is now a part of Aytu. The agreement, which was amended again in January 2015, provides for Aytu to pay \$6,000 per month to TRLLC in consideration for services related to research and development of Aytu's Oxidation Reduction Potential platform. In March 2014, Aytu also agreed to pay a sum of \$615,000 which is being amortized over the contractual term of 60.5 months and is divided between current and long-term on the balance sheet; this amount has been paid in full. This agreement has the same termination and expiration as the agreement between Ampio and TRLLC.

The Company has advances to one executive and three employees that were used to purchase stock in the Company when it was formed during 2010. These advances are non-interest bearing and due on demand and are classified as a reduction to stockholders' equity. As of June 30, 2015 and December 31, 2014, advances of \$91,000 to stockholders remained outstanding.

Note 8 Segment Information

We manage our Company and aggregate our operational and financial information in accordance with two reportable segments: Ampio and Aytu. The Ampio segment consists of our core biopharmaceuticals compounds and the clinical trials associated with them. The Aytu segment contains our men's health platform which consists of its diagnostic device platform and sexual dysfunction portfolio. Select financial information for our segments is as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue:				
Ampio	\$	\$	\$	\$
Aytu	184,000	21,000	206,000	34,000
Consolidated revenue	\$ 184,000	\$ 21,000	\$ 206,000	\$ 34,000
Consolidated net loss:				
Ampio	\$ (5,765,000)	\$ (6,942,000)	\$ (11,516,000)	\$ (15,411,000)

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Aytu	(1,949,000)	(1,991,000)	(3,789,000)	(3,994,000)
Consolidated net loss	(7,714,000)	(8,933,000)	(15,305,000)	(19,405,000)
Reconciliation of consolidated net loss attributable to Ampio:				
Net loss applicable to non-controlling interests	358,000	241,000	666,000	471,000
Net loss attributable to Ampio	\$ (7,356,000)	\$ (8,692,000)	\$ (14,639,000)	\$ (18,934,000)

	June 30, 2015	December 31, 2014
Total assets		
Ampio	\$ 40,381,000	\$ 61,326,000
Aytu	17,540,000	8,942,000
Total assets	\$ 57,921,000	\$ 70,268,000

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On May 8, 2015 and May 14, 2015, purported stockholders of the Company brought two putative class action lawsuits in the United States District Court in the Central District of California, Napoli v. Ampio Pharmaceuticals, Inc., et al., Case No. 2:15-cv-03474-TJH and Stein v. Ampio Pharmaceuticals, Inc., et al., Case No. 2:15-cv-03640-TJH, alleging that Ampio and certain of its current and former officers violated federal securities laws by misrepresenting and/or omitting information regarding the STEP study. The lawsuits seek unspecified damages, pre-judgment and post-judgment interest, and attorneys' fees and costs. The Company believes these claims are without merit and intends to defend these lawsuits vigorously. We currently believe the likelihood of a loss contingency related to these matters is remote and, therefore, no provision for a loss contingency is required.

Note 10 Subsequent Events

On July 22, 2015, Aytu closed on note purchase agreements with institutional and high net worth individual investors for the purchase and sale of convertible promissory notes with an aggregate principal amount of \$2.0 million. The sale of the notes is part of a private placement that Aytu expects to continue to undertake to raise up to a maximum of \$6.0 million although there can be no assurance that Aytu will be able to raise any more capital from the sale of notes. Aytu intends to use the net proceeds of the offering to conduct clinical studies for both Zertane[®] and RedoxSYS and for working capital to begin commercializing FDA-approved ProstaScint[®], as well as general corporate purposes.

The notes are Aytu's unsecured obligation. Unless earlier converted, the notes will mature on January 22, 2017, with an option to extend up to six months at our discretion (provided that in the event Aytu exercises such extension option, the then applicable interest rate shall increase by 2% for such extension period). Aytu does not have the right to prepay the notes prior to the maturity date. Interest will accrue on the notes in the following amounts: (i) 8% simple interest per annum for the first six months and (ii) 12% simple interest per annum thereafter if not converted during the first six months. If there has not been a registration statement on Form S-1 filed with the SEC for the registration of the shares of common stock underlying the notes by the expiration of the first six-month period then (a) the interest rate will increase to 14% for the remainder of the period in which the notes remain outstanding and (b) any notes held by officers and directors of our company will be subordinated to the remaining notes. Interest will accrue, is payable with the principal upon maturity, conversion or acceleration of the notes and may be paid in kind or in cash, in our sole discretion.

The notes are convertible at any time in a noteholder's discretion into that number of shares of our common stock equal in an amount equal to 120% of the number of shares of common stock calculated by dividing the then outstanding principal and accrued interest by \$4.63. A holder of notes will be obligated to convert on the terms of our next public offering of our stock resulting in proceeds to us of at least \$5,000,000 in gross proceeds (excluding indebtedness converted in such financing) prior to the maturity date of the notes, referred to as a Qualified Financing. The principal and accrued interest under the notes will automatically convert into a number of shares of such equity securities of our company sold in such financing equal to 120% of the principal and accrued interest under such note divided by the lesser of (i) the lowest price paid by an investor in such financing or (ii) \$4.63. In the event that Aytu sells equity securities to investors at any time while the notes are outstanding in a financing transaction that is not a Qualified Financing, then the noteholders will have the option to convert in whole the outstanding principal and accrued interest as of the closing of such financing into a number of shares of our capital stock in an amount equal to 120% of the number of such shares calculated by dividing the outstanding principal and accrued interest by the lesser of (i) the lowest cash price per share paid by purchasers of shares in such financing, or (ii) \$4.63.

Newbridge Securities Corporation, Member FINRA/SIPC, through LifeTech Capital, acted as sole placement agent for the institutional portion of the offering. Aytu sold the balance of the notes to individuals and entities with whom

Aytu has an established relationship. For notes sold by the placement agent, Aytu paid the placement agent 8% of the gross proceeds of notes sold by the placement agent and a warrant to purchase shares of our common stock equal to 8% of the gross proceeds of the notes sold by the placement agent divided by the price per share at which equity securities are sold in our next equity financing, in addition to a previously paid non-refundable retainer fee of \$20,000. The placement agent warrant has a term of five years, will have an exercise price equal to 100% of the price per share at which equity securities are sold in our next equity financing, and provides for cashless exercise.

On July 30, 2015, Ampio extended the Employment Agreements of Dr. David Bar-Or, Chief Scientific Officer, and Dr. Vaughan Clift, Chief Regulatory Affairs Officer, for one additional year, expiring July 31, 2016. Dr. Bar-Or agreed to his amendment on August 3, 2015 and Dr. Clift agreed to his amendment on July 31, 2015. In connection with these Amendments, Dr. Bar-Or and Dr. Clift were awarded 300,000 and 170,000 options, respectively, for Ampio common stock at an exercise price of \$2.60 and \$2.68, respectively with vesting upon successful meeting of certain endpoints in the Ampion clinical trials determined by Ampio's Board of Directors.

On July 30, 2015, Gregory A. Gould, Chief Financial Officer, was awarded 100,000 options for Ampio common stock.