

Ampio Pharmaceuticals, Inc.  
Form 10-Q  
May 08, 2015  
Table of Contents

**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, 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 May 1, 2015, there were 51,987,890 shares outstanding of Common Stock, par value \$0.0001, of the registrant.

**Table of Contents**

**AMPIO PHARMACEUTICALS, INC.  
AND SUBSIDIARIES  
FOR THE QUARTER ENDED MARCH 31, 2015  
INDEX**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |             |
| Item 1. <u>Consolidated Financial Statements</u>   | 4           |
| <u>Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u>  | 4           |
| <u>Consolidated Statements of Operations for the three months ended March 31, 2015 (unaudited) and the three months ended March 31, 2014 (unaudited)</u> | 5           |
| <u>Consolidated Statements of Stockholders' Equity (Deficit) (unaudited)</u>   | 6           |
| <u>Consolidated Statements of Cash Flows for the three months ended March 31, 2015 (unaudited) and the three months ended March 31, 2014 (unaudited)</u> | 7           |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>  | 8           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 16          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 21          |
| Item 4. <u>Controls and Procedures</u>   | 21          |
| <b><u>PART II OTHER INFORMATION</u></b>  |             |
| Item 1. <u>Legal Proceedings</u>   | 21          |
| Item 1A. <u>Risk Factors</u>   | 21          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 22          |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 22          |
| Item 4. <u>Mine Safety Disclosures</u>   | 22          |
| Item 5. <u>Other Information</u>   | 22          |
| Item 6. <u>Exhibits</u>  | 22          |
| <b><u>SIGNATURES</u></b>   | <b>23</b>   |

**Table of Contents**

**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**

|  | March 31,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|--|----------------------------------|----------------------|
| <b>Assets</b>  |                                  |                      |
| Current assets   |                                  |                      |
| Cash and cash equivalents  | \$ 43,271,458                    | \$ 50,320,656        |
| Prepaid expenses and other   | 283,737                          | 672,716              |
| Prepaid research and development - related party (Note 7)                      | 265,785                          | 265,785              |
| Total current assets   | 43,820,980                       | 51,259,157           |
| Fixed assets, net (Note 2)   |                                  |                      |
| In-process research and development  | 9,819,789                        | 9,945,428            |
| Patents, net   | 7,500,000                        | 7,500,000            |
| Long-term portion of prepaid research and development - related party (Note 7) | 646,472                          | 664,169              |
| Deposits   | 797,356                          | 863,802              |
|  | 35,854                           | 35,854               |
|  | 18,799,471                       | 19,009,253           |
| Total assets   | \$ 62,620,451                    | \$ 70,268,410        |
| <b>Liabilities and Stockholders Equity</b>                                     |                                  |                      |
| Current liabilities  |                                  |                      |
| Accounts payable   | \$ 1,521,317                     | \$ 3,299,025         |
| Accrued compensation   | 537,594                          | 235,665              |
| Deferred rent  | 59,579                           | 59,579               |
| Deferred revenue   | 85,714                           | 85,714               |
| Total current liabilities  | 2,204,204                        | 3,679,983            |
| Long-term deferred rent  | 654,874                          | 661,160              |
| Long-term deferred revenue   | 447,321                          | 468,749              |
| Total liabilities  | 3,306,399                        | 4,809,892            |

## Commitments and contingencies (Note 4)

|   |                   |                   |
|---|-------------------|-------------------|
| 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 - 51,986,534 in 2015 and 51,972,266 in 2014 | 5,199             | 5,197             |
| Additional paid-in capital  | 169,555,230       | 168,108,278       |
| Advances to stockholders  | (90,640)          | (90,640)          |
| Accumulated deficit   | (109,188,153)     | (101,904,570)     |
| <b>Total Ampio stockholders' equity</b>   | <b>60,281,636</b> | <b>66,118,265</b> |
| Non-controlling interests   | (967,584)         | (659,747)         |
| <b>Total equity</b>   | <b>59,314,052</b> | <b>65,458,518</b> |
| <br>  |                   |                   |
| Total liabilities and equity  | \$ 62,620,451     | \$ 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<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | 2015                            | 2014            |
| License revenue  | \$ 21,429                       | \$ 12,500       |
| Expenses   |                                 |                 |
| Research and development                                   | 4,576,268                       | 7,794,408       |
| Research and development - related party (Note 7)          | 83,948                          | 34,577          |
| General and administrative                                 | 2,961,058                       | 2,658,772       |
| Total operating expenses                                   | 7,621,274                       | 10,487,757      |
| Other income   |                                 |                 |
| Interest income  | 8,425                           | 3,495           |
| Total other income   | 8,425                           | 3,495           |
| Net loss   | (7,591,420)                     | (10,471,762)    |
| Net loss applicable to non-controlling interests           | 307,837                         | 229,579         |
| Net loss applicable to Ampio                               | \$ (7,283,583)                  | \$ (10,242,183) |
| Weighted average number of Ampio common shares outstanding | 51,981,340                      | 44,950,267      |
| Basic and diluted Ampio net loss per common share          | \$ (0.14)                       | \$ (0.23)       |

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<br>Shares | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Advances<br>to<br>Stockholders | Accumulated<br>Deficit | Non-controlling<br>Interests | Total<br>Stockholders<br>Equity |
|---|------------------------------------|------------------------|------------------------|----------------------------------|--------------------------------|------------------------|------------------------------|---------------------------------|
| Balance -<br>December 31,<br>2014                     | \$                                 | 51,972,266             | \$ 5,197               | \$ 168,108,278                   | \$ (90,640)                    | \$ (101,904,570)       | \$ (659,747)                 | \$ 65,458,518                   |
| Common<br>stock issued<br>for services<br>(unaudited) |                                    | 7,998                  | 1                      | 29,999                           |                                |                        |                              | 30,000                          |
| Warrants<br>exercised, net<br>(unaudited)             |                                    | 6,270                  | 1                      |                                  |                                |                        |                              | 1                               |
| Stock-based<br>compensation<br>(unaudited)            |                                    |                        |                        | 1,416,953                        |                                |                        |                              | 1,416,953                       |
| Net loss<br>(unaudited)                               |                                    |                        |                        |                                  |                                | (7,283,583)            | (307,837)                    | (7,591,420)                     |
| Balance -<br>March 31,<br>2015<br>(unaudited)         | \$                                 | 51,986,534             | \$ 5,199               | \$ 169,555,230                   | \$ (90,640)                    | \$ (109,188,153)       | \$ (967,584)                 | \$ 59,314,052                   |

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)**

|  | Three Months Ended<br>March 31, 2015 | Three Months Ended<br>March 31, 2014 |
|--|--------------------------------------|--------------------------------------|
| <b>Cash flows from operating activities:</b>   |                                      |                                      |
| Net loss   | \$ (7,591,420)                       | \$ (10,471,762)                      |
| Stock-based compensation expense   | 1,416,953                            | 1,021,231                            |
| Depreciation and amortization  | 231,008                              | 41,216                               |
| Amortization of prepaid research and development - related party<br>(Note 7)           | 66,446                               | 11,075                               |
| Common stock issued for services   | 30,000                               | 30,000                               |
| <b>Adjustments to reconcile net loss to net cash used in operating<br/>activities:</b> |                                      |                                      |
| Decrease (increase) in prepaid expenses and other                                      | 388,979                              | (363,317)                            |
| (Increase) in prepaid research and development - related party<br>(Note 7)             |                                      | (1,340,000)                          |
| (Decrease) increase in accounts payable  | (1,822,318)                          | 2,521,845                            |
| Increase in accrued liabilities - related party (Note 7)                               |                                      | 600,000                              |
| (Decrease) in deferred rent  | (6,286)                              |                                      |
| (Decrease) in deferred revenue   | (21,429)                             | (12,500)                             |
| Increase (decrease) in accrued compensation  | 301,929                              | (522,056)                            |
| <b>Net cash used in operating activities</b>   | <b>(7,006,138)</b>                   | <b>(8,484,268)</b>                   |
| <b>Cash flows used in investing activities:</b>  |                                      |                                      |
| Purchase of fixed assets   | (43,060)                             | (3,042,203)                          |
| <b>Net cash used in investing activities</b>   | <b>(43,060)</b>                      | <b>(3,042,203)</b>                   |
| <b>Cash flows from financing activities:</b>   |                                      |                                      |
| Proceeds from sale of common stock   |                                      | 68,442,553                           |
| Costs related to sale of common stock  |                                      | (4,999,777)                          |
| <b>Net cash provided by financing activities</b>                                       |                                      | <b>63,442,776</b>                    |
| <b>Net change in cash and cash equivalents</b>   | <b>(7,049,198)</b>                   | <b>51,916,305</b>                    |
| Cash and cash equivalents at beginning of period                                       | 50,320,656                           | 26,309,449                           |
| <b>Cash and cash equivalents at end of period</b>                                      | <b>\$ 43,271,458</b>                 | <b>\$ 78,225,754</b>                 |

Non-cash transactions:

|  |    |        |    |
|--|----|--------|----|
| Fixed asset purchases included in accounts payable | \$ | 44,612 | \$ |
|--|----|--------|----|

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

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**Table of Contents**

**AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(unaudited)**

**Note 1 Basis of Presentation and Business**

**Basis of Presentation**

These unaudited financial statements represent the consolidated financial statements of Ampio Pharmaceuticals, Inc. ( Ampio or the Company ), and its wholly-owned subsidiaries, Vyrix Pharmaceuticals, Inc. ( Vyrix ) and Luoxis Diagnostics, Inc. ( Luoxis ), an 80.9% 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 subsidiaries 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 March 31, 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 March 31, 2015 is unaudited. Ampio's activities, being primarily research and development and raising capital, have not generated significant revenue to date.

**Newly Issued Accounting Pronouncements**

In January 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( 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, 2016. Early adoption is not permitted. 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. We are also focused on monetizing our sexual dysfunction portfolio and diagnostic platform.

#### **Error in Classification**

Patent costs were previously classified as research and development, however, it was determined that these costs were incorrectly classified and, therefore, have been reclassified as general and administrative expense for all periods presented. Patent costs consist of legal and filing fees related to obtaining and maintaining patents and should have been excluded from research and development activities as set forth in the FASB's Accounting Standards Codification Topic 730, Research and Development. The impact of the correction of this error in classification decreased research and development expenses and correspondingly increased general and administrative expenses for the three months ended March 31, 2014 by \$609,000. The correction of this error had no impact on our total operating expenses or our net loss for any periods presented.

**Table of Contents****Note 2 Fixed Assets**

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<br>Lives in years | As of<br>March 31, 2015 | As of<br>December 31, 2014 |
|--|------------------------------------|-------------------------|----------------------------|
| Manufacturing Facility/Clean<br>Room - in progress | 8                                  | \$ 2,746,000            | \$ 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                                  | 1,076,000               | 1,060,000                  |
| Less accumulated depreciation<br>and amortization  |                                    | (633,000)               | (419,000)                  |
| Fixed assets, net                                  |                                    | \$ 9,820,000            | \$ 9,945,000               |

**Note 3 License Agreement/Revenue Recognition**

We have not generated material revenue in our operating history. The \$21,000 and \$13,000 license revenue recognized in the 2015 quarter and 2014 quarter, respectively, represents the amortization of the upfront payments received on our 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.

**Note 4 Commitments and Contingencies**

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

|  | Total        | Remaining<br>2015 | 2016         | 2017         | 2018         | 2019    | Thereafter |
|--|--------------|-------------------|--------------|--------------|--------------|---------|------------|
| Ampion supply<br>agreement                               | \$ 9,799,000 | \$ 2,149,000      | \$ 2,550,000 | \$ 2,550,000 | \$ 2,550,000 | \$      | \$         |
| Clinical<br>research and<br>trial obligations            | 4,793,000    | 4,793,000         |              |              |              |         |            |
| Sponsored<br>research<br>agreement with<br>related party | 1,300,000    | 244,000           | 325,000      | 325,000      | 325,000      | 81,000  |            |
| Facility lease   | 3,147,000    | 223,000           | 297,000      | 306,000      | 316,000      | 326,000 | 1,679,000  |

|               |              |              |              |              |            |              |
|---------------|--------------|--------------|--------------|--------------|------------|--------------|
| \$ 19,039,000 | \$ 7,409,000 | \$ 3,172,000 | \$ 3,181,000 | \$ 3,191,000 | \$ 407,000 | \$ 1,679,000 |
|---------------|--------------|--------------|--------------|--------------|------------|--------------|

***Manufacturing Facility/Clean Room In Progress***

The manufacturing facility/clean room is expected to provide commercial scale, FDA compliant, GMP manufacturing of Ampion, an advanced research and development laboratory as well as sufficient office space to consolidate the core operations of the Company in a single facility.

***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 \$9,799,000.

***Clinical Research and Trial Obligations***

In connection with upcoming clinical trials, as of March 31, 2015, Ampio has a remaining commitment of \$2,000,000 on contracts related to the Ampion study trial expense and \$2,793,000 remaining contract commitments related to the Optina study trial expense.

***Sponsored Research Agreement with Related Party***

Ampio entered into a Sponsored Research Agreement with 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.

**Table of Contents*****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 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 March 31, |           |
|--------------|------------------------------|-----------|
|              | 2015                         | 2014      |
| Rent expense | \$ 67,000                    | \$ 30,000 |

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

At March 31, 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 an additional 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.

***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 three months ended March 31, 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.

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

**Table of Contents**

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 5.0% 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 three months ended March 31, 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. Ampio has computed the fair value of all options granted during the three months ended March 31, 2015 using the following assumptions:

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

Ampio stock option activity is as follows:

|                                       | Number of<br>Options | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Fair<br>Value |
|---------------------------------------|----------------------|---------------------------------------|--|----------------------------|
| Outstanding December 31, 2014         | 6,568,248            | \$ 3.82                               | 7.66   | \$ 17,090,000              |
| Granted                               | 30,000               | \$ 3.46                               |  |                            |
| Exercised                             |                      | \$                                    |  |                            |
| Forfeited/Cancelled                   |                      | \$                                    |  |                            |
| Outstanding March 31, 2015            | 6,598,248            | \$ 3.82                               | 7.15   | \$ 17,169,000              |
| Exercisable at March 31, 2015         | 5,437,604            | \$ 3.48                               | 6.74   | \$ 12,539,000              |
| Available for grant at March 31, 2015 | 3,717,773            |                                       |  |                            |

**Table of Contents**

Stock options outstanding and exercisable at March 31, 2015 are summarized in the table below:

| Range of Exercise Prices | Number of<br>Options<br>Outstanding and<br>Exercisable | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual<br>Lives |
|--------------------------|--|---------------------------------------|---|
| \$1.03 - \$4.00          | 4,423,248  | \$ 2.33                               | 6.58  |
| \$4.01 - \$7.00          | 1,240,000  | \$ 6.17                               | 8.59  |
| \$7.01 - \$8.93          | 935,000  | \$ 7.73                               | 7.92  |
|                          | 6,598,248  | \$ 3.82                               | 7.15  |

Pursuant to the Luoxis 2013 Stock Option Plan (the 2013 Plan ), 5.0 million shares of its common stock were reserved for issuance. Luoxis stock option activity is as follows:

|                                       | Number of<br>Options | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual<br>Life | Aggregate Fair<br>Value |
|---------------------------------------|----------------------|---------------------------------------|--|-------------------------|
| Outstanding December 31, 2014         | 2,835,000            | \$ 1.19                               | 8.85   | \$ 2,541,000            |
| Granted                               |                      | \$                                    |  |                         |
| Exercised                             |                      | \$                                    |  |                         |
| Forfeited/Cancelled                   |                      | \$                                    |  |                         |
| Outstanding March 31, 2015            | 2,835,000            | \$ 1.19                               | 8.61   | \$ 2,541,000            |
| Exercisable at March 31, 2015         | 975,000              | \$ 1.00                               | 8.26   | \$ 687,000              |
| Available for grant at March 31, 2015 | 2,165,000            |                                       |  |                         |

**Table of Contents**

Vyrix has also adopted a 2013 Stock Option Plan (the "Vyrix 2013 Plan") which reserved 5.0 million shares of its common stock for issuance to officers, employees and consultants. Vyrix stock option activity is as follows:

|                                       | Number of<br>Options | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual<br>Life | Aggregate Fair<br>Value |
|---------------------------------------|----------------------|---------------------------------------|--|-------------------------|
| Outstanding December 31, 2014         | 950,000              | \$ 0.70                               | 9.04   | \$ 416,000              |
| Granted                               |                      | \$                                    |  |                         |
| Exercised                             |                      | \$                                    |  |                         |
| Forfeited/Cancelled                   |                      | \$                                    |  |                         |
| Outstanding March 31, 2015            | 950,000              | \$ 0.70                               | 8.79   | \$ 417,000              |
| Exercisable at March 31, 2015         | 475,000              | \$ 0.70                               | 8.79   | \$ 208,000              |
| Available for grant at March 31, 2015 | 4,050,000            |                                       |  |                         |

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 subsidiaries 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 three months ended March 31, 2015 and 2014:

|  | Three Months Ended March 31, |              |
|--|------------------------------|--------------|
|  | 2015                         | 2014         |
| Research and development expenses      |                              |              |
| Stock options                          |                              |              |
| Ampio                                  | \$ 608,000                   | \$ 638,000   |
| Luoxis                                 | 107,000                      | 52,000       |
| Vyrix                                  | 8,000                        | 29,000       |
| General and administrative expenses    |                              |              |
| Common stock issued for services       | 30,000                       | 30,000       |
| Stock options                          |                              |              |
| Ampio                                  | 537,000                      | 299,000      |
| Luoxis                                 | 138,000                      | 58,000       |
| Vyrix                                  | 19,000                       | (55,000)     |
|  | \$ 1,447,000                 | \$ 1,051,000 |
| Unrecognized expense at March 31, 2015 |                              |              |
| Ampio                                  | \$ 2,623,000                 |              |
| Luoxis                                 | \$ 1,129,000                 |              |

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|  |            |
|--|------------|
| Vyrix                                    | \$ 194,000 |
| Weighted average remaining years to vest |            |
| Ampio                                    | 1.07       |
| Luoxis                                   | 2.23       |
| Vyrix                                    | 1.79       |

**Table of Contents*****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<br>Warrants | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual<br>Life |
|--|-----------------------|---------------------------------------|--|
| Outstanding December 31, 2014                                | 516,329               | \$ 3.26                               | 1.44   |
| Warrants exercised - Private/Registered<br>Direct Placements | (15,001)              | \$ 4.06                               |  |
| Outstanding March 31, 2015                                   | 501,328               | \$ 3.24                               | 1.16   |

Luoxis issued warrants to purchase 465,250 shares of common stock at a price of \$1.00 exercisable one year after the final closing in connection with the private placement in May 2013. All of these warrants remain outstanding with a weighted average remaining contractual life of 3.17.

**Note 7 Related Party Transactions**

Ampio entered into a sponsored research agreement with TRLLC, an entity controlled by our 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 our 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. The agreement, which was amended again in January 2015, provides for Luoxis to pay \$6,000 per month to TRLLC in consideration for services related to research and development of Luoxis' Oxidation Reduction Potential platform. In March 2014, Luoxis 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 March 31, 2015 and December 31, 2014, advances of \$91,000 to stockholders remained outstanding.

**Table of Contents****Note 8 Segment Information**

We manage our Company and aggregate our operational and financial information in accordance with two reportable segments: Ampio and the combined Luoxis and Vyrix Company. The Ampio segment consists of our core biopharmaceuticals compounds and the clinical trials associated with them. The combined Luoxis and Vyrix Company 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 March 31, |                 |
|---|------------------------------|-----------------|
|   | 2015                         | 2014            |
| <b>Revenue:</b>   |                              |                 |
| Ampio   | \$                           | \$              |
| Combined Luoxis and Vyrix Company                                     | 21,000                       | 13,000          |
| Consolidated revenue  | \$ 21,000                    | \$ 13,000       |
| <b>Consolidated net loss:</b>   |                              |                 |
| Ampio   | \$ (5,749,000)               | \$ (8,469,000)  |
| Combined Luoxis and Vyrix Company                                     | (1,842,000)                  | (2,003,000)     |
| Consolidated net loss   | (7,591,000)                  | (10,472,000)    |
| <b>Reconciliation of consolidated net loss attributable to Ampio:</b> |                              |                 |
| Net loss applicable to non-controlling interests                      | 308,000                      | 230,000         |
| Net loss attributable to Ampio  | \$ (7,283,000)               | \$ (10,242,000) |

|                                   | March 31, 2015 | December 31, 2014 |
|-----------------------------------|----------------|-------------------|
| <b>Total assets</b>               |                |                   |
| Ampio                             | \$ 52,419,000  | \$ 61,326,000     |
| Combined Luoxis and Vyrix Company | 10,202,000     | 8,942,000         |
| Total assets                      | \$ 62,621,000  | \$ 70,268,000     |

## **Table of Contents**

### **Note 9 Subsequent Events**

On April 15, 2015, the Company modified options related to a former executive which accelerated vesting of 111,160 options and extended the exercise period from 90 days after termination to April 15, 2020.

On April 16, 2015, the Luoxis and Vyrix subsidiaries were combined to form a company that was used to acquire Rosewind Corporation, a public company, through a reverse triangular merger. We anticipate the combined company will be reincorporated in Delaware with the name Aytu Bioscience, Inc.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

#### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This discussion should be read in conjunction with Ampio Pharmaceuticals, Inc.'s historical consolidated financial statements. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. For additional information regarding these risks and uncertainties, please see Part II, Item 1A of this Form 10-Q, Risk Factors, and the risk factors included in Ampio's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2015.*

#### **Overview**

Ampio maintains an Internet website at [www.ampiopharma.com](http://www.ampiopharma.com). Information on or linked to the Company website is not incorporated by reference into this Quarterly Report on Form 10-Q. Filings with the SEC can also be obtained at the SEC's website, [www.sec.gov](http://www.sec.gov).

We are 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. We are also focused on monetizing our sexual dysfunction portfolio and a diagnostic platform.

#### **Product Update**

We continue to execute our business plan and continue to progress forward on our main drug candidates and our device development.

#### **AMPION**

Ampion is the < 5 kDa ultrafiltrate of 5% Human Serum Albumin (HSA), an approved biologic drug product. Ampion is produced by ultrafiltration, and is provided as a sterile solution for dose administration as an injection directly into the osteoarthritic knee joint. Ampion is proposed for the treatment of pain due to osteoarthritis of the knee.

We have completed five clinical trials in the development of Ampion. Clinical trial development began with a Phase I/II study in 2011. The pivotal Phase III Spring study met its primary endpoint and results were announced in 2013. Ampio announced the results of the Phase II STRUT study in first quarter 2015, demonstrating a 64% reduction in pain at 20 weeks. Ampio announced the results of the Phase III STRIDE study in second quarter 2015, demonstrating



a statically significant reduction in pain at 20 weeks ( $p < 0.001$ ), however the study failed to reach its primary endpoint against saline control. Ampio plans to meet with the FDA to discuss completed clinical trials for the treatment of pain due to osteoarthritis of the knee. At the same time Ampio continues to make progress on the Biologics License Application ( BLA ) filing. Additional clinical investigation may begin in the second half of 2015.

### **OPTINA**

Optina is a low-dose formulation of danazol proposed for the treatment of diabetic macular edema ( DME ). Danazol is a synthetic derivative of modified testosterone ethisterone. At low doses, danazol decreases vascular permeability by increasing the barrier function of endothelial cells. The lipophilic low-molecular-weight weak androgen has the potential to treat multiple angiopathies.

We announced results for the Phase II study in 2012. At the end of 2014 Ampio announced the primary completion of the Phase II study; the open label portion of the Phase II study concluded in the first quarter of 2015. Clinical laboratory samples collected during the trial have been sent to an independent third party laboratory for analysis. Ampio is awaiting those laboratory results prior to being able to fully analyze the results of this trial. The Company has no plans to start another Optina trial in fiscal 2015.

## **Table of Contents**

### **REDOXSYS**

RedoxSYS is a novel, diagnostic platform comprised of a first-in-class, point-of-care device and disposable testing strips that together measure the presence of oxidative stress and antioxidant reserves. We believe this device could also be used as a key indicator in male reproductive health. Currently, the device is being studied in over 60 research collaborations that will continue through 2015. To date, the revenue related to the device and the test strips is not material.

### **ZERTANE**

Zertane is an oral drug in late stage development as treatment for premature ejaculation ( PE ). The FDA agreed to review a draft study protocol in advance of us submitting our Investigational New Drug application, or IND. Upon completion of the program, if successful, we plan to submit a New Drug Application, or NDA, and subsequently market Zertane in the United States, if approved during the second half of 2016.

### **Future Development**

We also intend to study Ampion for therapeutic applications outside of osteoarthritis of the knee. We expect to engage development partners to study Ampion in various conditions including: (i) acute and chronic inflammatory conditions; (ii) degenerative bone diseases; and (iii) respiratory and allergic disorders. Based on the continuing evaluation, we are also studying Ampion's effects on cellular behavior to indicate potential effects on disease modification across multiple conditions. If successful, we believe these additional formulations and potential therapeutic indications will supplement the Ampion clinical portfolio, and will enable clinical applications in large therapeutic markets where there are significant unmet needs. We expect that initial investigations into strategically attractive indications will be conducted on an investigator-sponsored basis.

### **AMPION MANUFACTURING FACILITY**

During July 2014, we moved into our new headquarters, manufacturing and research facility. Our new manufacturing facility will initially provide registration batches of Ampion supporting the BLA. Ampio has completed validation on the facility, utilities, analytical laboratories and manufacturing equipment. Ampio has also successfully completed FDA requirements for aseptic process simulation and manufacture product for use in clinical investigation. Once the manufacturing operation is approved by the FDA for commercial production, the facility is expected to have an annual production capacity of approximately ten million doses of Ampion. The raw material, HSA, required to manufacture Ampion has already been secured through a long-term, non-exclusive, supply agreement. We expect the facility will be fully placed in service by the summer of 2015. The total cost of the facility was approximately \$10.4 million.

### **NEW MERGER/SUBSIDIARY**

#### **Rosewind Corporation**

On April 16, 2015, Luoxis and 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, we became the holder of 81.5% of the common stock of Rosewind.

#### **KNOWN TRENDS OR FUTURE EVENTS**

The Company has not generated any significant revenues and have therefore incurred significant net losses totaling \$109.2 million since its inception in December 2008. The assets we purchased from BioSciences in April 2009 generated minimal revenues prior to their

## **Table of Contents**

acquisition. We expect to generate operating losses for the foreseeable future, but intend to try to limit the extent of these losses by entering into co-development or collaboration agreements with one or more strategic partners. Although we have raised capital in the past with net proceeds of \$63.4 million, \$28.9 million and \$15.4 million through the sale of common stock in 2014, 2013 and 2012, respectively, we cannot assure you that we will be able to secure such additional financing, if needed, or that it will be adequate to execute our business strategy. Even if we obtain additional financing, it may be costly and may require us to agree to covenants or other provisions that will favor new investors over existing shareholders.

Our primary focus is advancing the clinical development of our core assets: Ampion and Optina. In December 2013, we entered into a ten-year lease of a multi-purpose facility containing approximately 19,000 square feet. This facility includes an FDA compliant clean room to manufacture Ampion and our corporate offices.

## **ACCOUNTING POLICIES**

### **Significant Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to recoverability of long-lived assets, allowances and contingencies. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The methods, estimates, and judgments used by us in applying these most critical accounting policies have a significant impact on the results we report in our financial statements. Our significant accounting policies and estimates are included in our 2014 Annual Report reported on Form 10-K, filed with the SEC on February 24, 2015.

### **Newly Issued Accounting Pronouncements**

In January 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( 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, 2016. Early adoption is not permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

#### **Error in Classification**

Patent costs were previously classified as research and development, however, it was determined that these costs were incorrectly classified and, therefore, have been reclassified as general and administrative expense for all periods presented. Patent costs consist of legal and filing fees related to obtaining and maintaining patents and should have been excluded from research and development activities as set forth in the FASB's Accounting Standards Codification Topic 730, Research and Development. The impact of the correction of this error in classification decreased research and development expenses and correspondingly increased general and administrative expenses for the three months ended March 31, 2014 by \$609,000. The correction of this error had no impact on our total operating expenses or our net loss for any periods presented.

**Table of Contents****SEGMENT REPORTING****Ampio Segment**

The Ampio segment consists of our core biopharmaceuticals compounds and the clinical trials associated with them. To date, this business segment has not generated revenue and has incurred losses each year since its inception.

**Combined Luoxis and Vyrix Company Segment**

The combined Luoxis and Vyrix Company contains our men's health platform which consists of its diagnostic device platform and sexual dysfunction portfolio. To date, this business segment has not generated material revenue and has incurred losses each year since its inception.

**RESULTS OF OPERATIONS****Results of Operations – March 31, 2015 Compared to March 31, 2014**

Results of operations for the three months ended March 31, 2015 (the 2015 quarter) and the three months ended March 31, 2014 (the 2014 quarter) reflected net losses of approximately \$7.6 million and \$10.5 million, respectively. These losses include in part non-cash charges related to stock-based compensation, depreciation and amortization, amortization of prepaid research and development - related party and common stock issued for services, collectively in the amount of \$1.7 million in the 2015 quarter and \$1.1 million in the 2014 quarter. The non-cash charges increased in the 2015 quarter primarily due to the increase in stock-based compensation, the increase in depreciation and amortization of our new manufacturing facility and the increase in amortization of prepaid research and development - related party.

***Revenue***

We have not generated material revenue in our operating history. The \$21,000 and \$13,000 license revenue recognized in the 2015 quarter and 2014 quarter, respectively, represents the amortization of the upfront payments received on our 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.

***Expenses******Research and Development***

Research and development costs are summarized as follows:

|  | <b>Three Months Ended March 31,</b> |              |
|--|-------------------------------------|--------------|
|  | <b>2015</b>                         | <b>2014</b>  |
| Clinical trials and sponsored research | \$ 2,612,000                        | \$ 6,612,000 |
| Labor                                  | 830,000                             | 399,000      |

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|                                    |              |              |
|------------------------------------|--------------|--------------|
| Stock-based compensation           | 723,000      | 719,000      |
| Sponsored research - related party | 84,000       | 35,000       |
| Consultants and other              | 411,000      | 64,000       |
|                                    | \$ 4,660,000 | \$ 7,829,000 |

Research and development costs consist of labor, stock-based compensation as well as drug development and clinical trials. Costs of research and development decreased \$3.2 million, or 40.5%, for the 2015 quarter compared to the 2014 quarter. The decrease is primarily due to a decrease in clinical trials and sponsored research expenses due to the completion of our prior trials. During 2015, we expect that our clinical trial expense will be less than our 2014 expense as we are not expecting to do any additional Optina trials during this year. The increase in labor and consultants and other is due to the additional costs related to preparing our facility to become operational and the additional professional staffing.

**Table of Contents***General and Administrative*

General and administrative costs are summarized as follows:

|                             | <b>Three Months Ended March 31,</b> |                     |
|-----------------------------|-------------------------------------|---------------------|
|                             | <b>2015</b>                         | <b>2014</b>         |
| Labor                       | \$ 742,000                          | \$ 707,000          |
| Stock-based compensation    | 724,000                             | 332,000             |
| Patent costs                | 378,000                             | 609,000             |
| Professional fees           | 568,000                             | 446,000             |
| Occupancy, travel and other | 486,000                             | 498,000             |
| Directors fees              | 63,000                              | 67,000              |
|                             | <b>\$ 2,961,000</b>                 | <b>\$ 2,659,000</b> |

General and administrative costs increased \$302,000, or 11.4%, for the 2015 quarter compared to the 2014 quarter. The increase is due to the increase in stock-based compensation and professional fees which was offset by the decrease in patent cost. We expect that our general and administrative expense will remain flat or even slightly decrease in the second half of 2015 compared to the first quarter of 2015.

*Net Cash Used in Operating Activities*

During the 2015 quarter, our operating activities used approximately \$7.0 million in cash which was less than the net loss of \$7.6 million primarily as a result of the non-cash stock-based compensation offset by an increase in prepaid expenses and other as well as the increase in accrued compensation and decrease in accounts payable.

In the 2014 quarter, the use of cash was \$8.5 million which was less than the net loss of \$10.5 million principally as a result of non-cash stock-based compensation offset by prepaid research and development related party, accrued compensation and accounts payable.

*Net Cash Used in Investing Activities*

During the 2015 quarter, cash was used to acquire manufacturing machinery and equipment. Purchase of fixed assets decreased to \$43,000 compared to \$3.0 million for the same period in 2014. This reflects the near completion of our manufacturing facility in the first quarter of 2015.

*Net Cash from Financing Activities*

The Company had no financing activity during the first quarter of 2015.

Net cash provided by financing activities in the 2014 quarter reflects gross proceeds from the public offering of \$68.4 million offset by costs related to the offering of \$5.0 million.

*Liquidity and Capital Resources*



As a biopharmaceutical company, we have not generated significant revenue as our primary activities are focused on research and development, advancing our primary product candidates, and raising capital. As of March 31, 2015, we had cash and cash equivalents totaling \$43.3 million and \$1.5 million in accounts payable. Based upon our current expectations, we believe our capital resources at March 31, 2015 will be sufficient to fund our currently planned operations through fiscal 2016. This estimate is based on a number of assumptions that may prove to be wrong, and we could exhaust our available cash and cash equivalents earlier than presently anticipated. We may be required or choose to seek additional capital to expand our clinical development activities for developing our products. This could be necessary either assuming positive results of our ongoing clinical trials or if we face challenges or delays in connection with those trials. Additional funding will be required if we choose to do a commercial launch of Ampion ourselves. We also may choose to seek additional capital to maintain minimum cash balances that we deem reasonable and prudent. We intend to evaluate the capital markets from time to time to determine whether to raise additional capital in the form of equity, convertible debt or otherwise, depending on market conditions relative to our need for funds at such time, and we may seek to raise additional capital should we conclude that such capital is available on terms that we consider to be in the best interests of the Company and its shareholders.

## **Table of Contents**

Our budget for 2015 reflects cash requirements for fixed, on-going expenses such as payroll, legal and accounting, patents and overhead at an average cash burn rate of approximately \$1.2 million per month.

As additional funding is required, it will be necessary to raise additional capital and/or enter into licensing or collaboration agreements. At this time, we expect to satisfy our future cash needs through private or public sales of our securities or debt financings. We cannot be certain that financing will be available to us on acceptable terms, or at all. In recent years, volatility in the financial markets has adversely affected the market capitalizations of many pharmaceutical companies and generally made equity and debt financing more difficult to obtain. This volatility, coupled with other factors, may limit our access to additional financing.

If we cannot raise adequate additional capital in the future when we require it, we will be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or our commercialization efforts. We also may be required to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose. This may lead to impairment or other charges, which could materially affect our balance sheet and operating results.

### ***Off Balance Sheet Arrangements***

We do not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as variable interest entities .

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is not currently exposed to material market risk arising from financial instruments, changes in interest rates or commodity prices, or fluctuations in foreign currencies. The Company has no need to hedge against any of the foregoing risks and therefore currently engages in no hedging activities.

### **Item 4. Controls and Procedures.**

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and are operating in an effective manner.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company is currently not party to any material pending legal proceedings, whether routine or non-routine.

**Item 1A. Risk Factors.**

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission, which could materially affect our business, financial condition or future results. During the quarterly period covered by this Quarterly Report on Form 10-Q, there were no material changes to the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**Table of Contents**

**Item 2. Unregistered Sales of Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

**Exhibit**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 31.1          | Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2          | Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1          | Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*.  |
| 101           | XBRL (eXtensible Business Reporting Language). The following materials from Ampio Pharmaceuticals, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity (Deficit), (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements. |

\* The certification attached as Exhibit 32.1 accompanying this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, shall not be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMPIO PHARMACEUTICALS, INC.

By: /s/ Michael Macaluso  
**Michael Macaluso**

**Chairman and Chief Executive Officer**

**Date: May 8, 2015**

By: /s/ Gregory A. Gould  
**Gregory A. Gould**

**Chief Financial Officer, Treasurer and  
Secretary**

**Date: May 8, 2015**