Ampio Pharmaceuticals, Inc.
Form 10-Q
November 02, 2012
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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: September 30, 2012

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	**26-0179592**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

5445 DTC Parkway

Suite 925

Greenwood Village, Colorado 80111

(Address of principal executive offices, including zip code)

(720) 437-6500

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 x
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 x

As of November 2, 2012, there were 37,009,695 shares outstanding of Common Stock, par value $0.0001, of the registrant.

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AMPIO PHARMACEUTICALS, INC.

AND SUBSIDIARIES

NINE MONTHS ENDED SEPTEMBER 30, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- *projected operating or financial results, including anticipated cash flows used in operations;*
- *expectations regarding capital expenditures, research and development expense and other payments;*
- *our beliefs and assumptions relating to our liquidity position, including our ability to obtain additional financing;*
- *our ability to obtain regulatory approvals for our pharmaceutical drugs and diagnostics; and*
- *our future dependence on third party manufacturers or strategic partners to manufacture any of our pharmaceutical drugs and diagnostics that receive regulatory approval, and our ability to identify strategic partners and enter into license, co-development, collaboration or similar arrangements.*

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

- *the loss of key management personnel or sponsored research partners on whom we depend;*
- *the progress and results of clinical trials for our product candidates;*
- *our ability to navigate the regulatory approval process in the U.S. and other countries, and our success in obtaining required regulatory approvals for our product candidates;*
- *commercial developments for products that compete with our product candidates;*
- *the actual and perceived effectiveness of our product candidates, and how those product candidates compare to competitive products;*
- *the strength of our intellectual property protection, and our success in avoiding infringing the intellectual property rights of others;*

adverse developments in our research and development activities;

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

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

our expectations with respect to our acquisition activity.

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

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

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Balance Sheets

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 20,265,865	$ 11,362,325
Prepaid expenses	142,147	43,120
Total current assets	20,408,012	11,405,445
Fixed assets, net of depreciation	63,525	76,230
In-process research and development	7,500,000	7,500,000
Patents, net of amortization	431,832	465,924
Deposits	35,000	35,000
	8,030,357	8,077,154
Total assets	$ 28,438,369	$ 19,482,599
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 789,417	$ 630,622
Deferred revenue	50,000	50,000
Warrant derivative liability	457,852	610,911
Total current liabilities	1,297,269	1,291,533
Long-term deferred revenue	393,750	431,250
Total liabilities	1,691,019	1,722,783
Commitments and contingencies (Note 6)		
Stockholders equity		
Preferred Stock, par value $.0001; 10,000,000 shares authorized; none issued		
Common Stock, par value $.0001; 100,000,000 shares authorized; shares issued and outstanding - 36,994,695 in 2012 and 31,081,434 in 2011	3,699	3,108
Additional paid-in capital	62,927,572	46,061,783
Advances to stockholders	(90,640)	(127,523)
(Deficit) accumulated in the development stage	(36,093,281)	(28,177,552)
Total stockholders equity	26,747,350	17,759,816
Total liabilities and stockholders equity	$ 28,438,369	$ 19,482,599

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

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AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Operations

(unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	December 18, 2008 (inception) through September 30, 2012
License revenue	$ 12,500	$ 6,250	$ 37,500	$ 6,250	$ 56,250
Expenses					
Research and development	$ 2,135,385	$ 1,402,038	$ 5,159,721	$ 3,012,302	$ 14,619,934
Research and development - related party (Note 6)		2,112		34,013	230,688
General and administrative	677,928	1,371,949	2,941,293	3,543,773	12,620,273
Total operating expenses	2,813,313	2,776,099	8,101,014	6,590,088	27,470,895
Other income (expense)					
Interest income	7,911	2,311	15,098	4,510	23,688
Interest expense				(8,358)	(29,317)
Unrealized loss on fair value of debt instruments				(5,585,422)	(5,547,911)
Derivative income (expense)	208,934	274,410	132,687	(1,917,687)	(2,790,581)
Total other expense	216,845	276,721	147,785	(7,506,957)	(8,344,121)
Net loss, before income tax	$ (2,583,968)	$ (2,493,128)	$ (7,915,729)	$ (14,090,795)	$ (35,758,766)
Foreign tax expense		82,500		82,500	82,500
Net loss	$ (2,583,968)	$ (2,575,628)	$ (7,915,729)	$ (14,173,295)	$ (35,841,266)
Weighted average number of common shares outstanding	36,477,907	28,679,942	32,967,745	25,015,924	
Basic and diluted net loss per common share	$ (0.07)	$ (0.09)	$ (0.24)	$ (0.57)	

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

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AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Stockholders Equity (Deficit)

	Series A Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amount	Common Stock Subscribed	Additional Paid in Capital	Additional Issuances	Advances to Stockholders	Deficit Accumulated in the Development Stage	Total Stockholders Equity (Deficit)
Balance - December 18, 2008 (date of inception)		$		$	$	$	$	$	$	$
Issuance of common stock to founder December, 2008			1,080,000	1,080						1,080
Balance - December 31, 2008			1,080,000	1,080						1,080
Issuance of common stock and assumption of liabilities in asset acquisition			3,500,000	3,500					(252,015)	(248,515)
Issuance of Series A Preferred Stock in exchange for cancellation of a note payable in April 2009	163,934	164				199,836				200,000
Issuance of restricted common stock in exchange for cash in April 2009			7,350,000	7,350						7,350
Issuance of Series A Preferred Stock in exchange for cash in April and May 2009	913,930	914				1,114,106				1,115,020
Common stock subscribed in					170,003					170,003

November and December 2009										
Net loss									(1,512,908)	(1,512,908)
Balance - December 3 1, 2009	1,077,864	$ 1,078	11,930,000	$ 11,930	$ 170,003	$ 1,313,942	$	$	$ (1,764,923)	$ (267,970)
Conversion of equity in reverse merger acquisition	(1,077,864)	(1,078)	3,068,958	(10,430)		11,691				183
Common stock subscribed in March 2010					7,000					7,000
Issuance of common stock in exchange for cash in March and June 2010, net of offering costs of $350,000			1,078,078	108	(177,003)	1,536,522				1,359,627
Issuance of common stock for services			1,030,000	103		1,802,397	(3,281)			1,799,219
Stock-based compensation						1,297,083				1,297,083
Loans to shareholders								(150,183)		(150,183)
Net loss									(8,053,395)	(8,053,395)
Balance - December 31, 2010		$	17,107,036	$ 1,711	$	$ 5,961,635	$ (3,281)	$ (150,183)	$ (9,818,318)	$ (4,008,436)
Stock-based compensation			13,635	1		1,983,784				1,983,785
Issuance of common stock for services							3,281			3,281
Conversion of debentures			1,281,852	128		9,423,947				9,424,075
Shares issued for cash			1,714			3,000				3,000
Options exercised, net			301,604	30		109,015				109,045
Issuance of common stock for acquisition of DMI BioSciences, Inc., net of 3,500,000 shares of Ampio common stock exchanged			5,167,905	517		7,852,220				7,852,737

Issuance of common stock in exchange for cash in March and April, net of offering costs of $2,704,328		5,092,880	509	10,916,029			10,916,538
Warrants exercised		88,669	8	784,356			784,364
Shares received in exchange for options issued		(98,416)	(9)	574,009			574,000
Escrow shares claimed		(95,700)	(9)	9			
Repayment of advance					22,660		22,660
Issuance of common stock in exchange for cash in December, net of offering costs of $982,083		2,220,255	222	8,453,779			8,454,001
Net loss						(18,359,234)	(18,359,234)
Balance - December 31, 2011	$	31,081,434	$ 3,108	$ $ 46,061,783	$ $ (127,523)	$ (28,177,552)	$ 17,759,816
Issuance of common stock for services (unaudited)		9,072	1	39,999			40,000
Options exercised, net (unaudited)		680,809	68	617,932			618,000
Warrants exercised, net (unaudited)		19,520	2	32,692			32,694
Stock-based compensation (unaudited)				822,536			822,536
Repayment of advance (unaudited)					36,883		36,883
Issuance of common stock in exchange for cash in July, net of offering costs of $1,739,589 (unaudited)		5,203,860	520	15,352,630			15,353,150
Net loss (unaudited)						(7,915,729)	(7,915,729)
Balance - September 30, 2012	$	36,994,695	$ 3,699	$ $ 62,927,572	$ $ (90,640)	$ (36,093,281)	$ 26,747,350

(unaudited)

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

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AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	December 18, 2008 (Inception) through September 30, 2012
Cash flows from operating activities:			
Net loss	$ (7,915,729)	$ (14,173,295)	$ (35,841,266)
Depreciation and amortization	46,797	26,952	89,348
Common stock issued for services	40,000	3,281	1,842,500
Stock-based compensation expense	822,536	1,805,257	4,103,404
Derivative (income) expense	(132,687)	1,917,687	2,790,581
Unrealized loss on fair value of debt instruments		5,585,422	5,547,911
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:			
(Increase) in prepaid expenses	(99,027)	(56,419)	(142,147)
Decrease in related party receivable		5,711	
Increase (Decrease) in related party payable		(84,032)	109,789
Increase in accounts payable	158,795	6,577	789,419
Increase (Decrease) in deferred revenue	(37,500)	493,750	443,750
(Decrease) in accrued salaries		(526,733)	
Increase (Decrease) in accrued interest payable		(2,745)	16,948
Net cash and cash equivalents used in operating activities	(7,116,815)	(4,998,587)	(20,249,763)
Cash flows used in investing activities:			
Purchase of fixed assets		(84,705)	(84,705)
Deposits		(37,000)	(35,000)
Net cash and cash equivalents used in investing activities		(121,705)	(119,705)
Cash flows from financing activities:			
Proceeds from related party notes payable and debentures		382,000	2,593,000
Proceeds from sale of common stock	17,542,867	12,953,853	41,346,424
Costs related to sale of common stock	(1,559,395)	(1,815,664)	(4,357,142)
Proceeds from common stock subscribed			177,003
Proceeds from sales of Series A Preferred Stock			1,115,020
Advances (to) from shareholders	36,883	22,660	(90,640)
Payment of liabilities assumed in asset purchase			(48,515)
Payment of related party notes		(100,000)	(100,000)
Increase in cash from acquisition			183
Net cash and cash equivalents provided by financing activities	16,020,355	11,442,849	40,635,333
Net change in cash and cash equivalents	8,903,540	6,322,557	20,265,865
Cash and cash equivalents at beginning of period	11,362,325	671,279	
Cash and cash equivalents at end of period	$ 20,265,865	$ 6,993,836	$ 20,265,865

Supplementary cash flow information:					
Interest paid	$		$ 8,358	$	8,358
Income taxes paid	$		$ 82,500	$	82,500
Non-cash transactions:					
Liabilities assumed in asset purchase, recorded as a distribution	$		$	$	248,515
Conversion of notes payable to Series A Preferred Stock	$		$	$	200,000
Common stock issued for common stock subscriptions received	$		$	$	177,003
Deferred charge recorded for common stock issued in exchange for services	$		$	$	1,802,500
Common stock issued for acquisition of DMI BioSciences, Inc.	$		$ 7,852,737	$	7,852,737
Conversion of debentures to common stock	$		$ 9,424,075	$	9,424,075
Warrant compensation from common stock offering costs	$	180,194	$ 888,664	$	1,068,858
Merger liability - shares exchanged for options	$		$ 574,000	$	574,000

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

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AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Consolidated Financial Statements

(unaudited)

Note 1 Business, Basis of Presentation and Merger

These unaudited financial statements represent the consolidated financial statements of Ampio Pharmaceuticals, Inc. (Ampio or the Company), formerly known as Chay Enterprises, Inc. (Chay), and its wholly-owned subsidiaries, DMI Life Sciences, Inc. (Life Sciences), DMI Acquisition Corp. and DMI BioSciences, Inc. (BioSciences). 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, 2011, which included all disclosures required by generally accepted accounting principles. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position of Ampio and its results of operations and cash flows for the interim periods presented. The results of operations for the period ended September 30, 2012 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 September 30, 2012 is unaudited.

Ampio is engaged in developing innovative, proprietary pharmaceutical drugs and diagnostic products to identify, treat and prevent a broad range of human diseases including metabolic disorders, eye disease, kidney disease, acute and chronic inflammation diseases and male sexual dysfunction.

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

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

On March 23, 2011, Ampio acquired BioSciences (the BioSciences Merger). BioSciences principal asset consisted of the worldwide rights to Zertane, as to which BioSciences held 32 issued patents and 31 pending patent applications. Zertane is a repurposed drug to treat male sexual dysfunction pertaining to premature ejaculation (PE) in men. See Note 2 Acquisition of DMI BioSciences for terms of the acquisition.

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

In July 2012, the FASB issued ASU 2012-02, Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment. The guidance is intended to simplify impairment testing of indefinite-lived intangible assets such as In-Process Research and Development by first assessing qualitative factors to determine whether it is more likely than not that the fair value of an asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance is not expected to have a significant impact on the Company s financial position or results of operations.

Note 2 Acquisition of DMI BioSciences

On March 23, 2011, Ampio acquired all of the outstanding stock of BioSciences for 8,667,905 shares of Ampio common stock (the merger stock). Ampio acquired BioSciences in order to obtain all rights to Zertane, BioSciences male sexual dysfunction drug

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for PE. The business combination occurred following the satisfaction or waiver of all conditions to closing. As called for in the merger agreement, Ampio issued 405,066 shares of merger stock to holders of BioSciences in-the-money stock options and warrants, 500,000 shares of merger stock to holders of two BioSciences promissory notes in extinguishment of the notes, and placed 250,000 shares of merger stock in an indemnification escrow until December 31, 2011. The remaining 7,512,839 shares of merger stock were issued to the holders of BioSciences common stock on a pro rata basis. As required by the merger agreement, at the closing BioSciences donated back to Ampio s capital 3,500,000 shares of Ampio common stock formerly owned by BioSciences which were subsequently cancelled. Ampio separately issued 212,693 options in replacement of 250,850 Biosciences options that were out-of-the-money as of the date of execution of the merger agreement.

As a component of the purchase price, Ampio recorded a liability of $574,000 to reflect the potential settlement with three in-the-money option holders that threatened litigation to have their BioSciences options carried over versus being issued Ampio stock in exchange for these options. The dispute involved 263,000 options that were converted to 98,416 shares of Ampio common stock. The liability was estimated based on a fair value calculation of the difference between the Ampio stock trading price and the value of Ampio options using the Black-Scholes option price model with an exercise price of $0.90. On June 17, 2011 a formal agreement was executed whereby Ampio issued 223,024 stock options with an exercise price of $0.90 and an expiration date of February 22, 2014 in exchange for the 98,416 previously issued shares of Ampio stock. The $574,000 liability has been eliminated and credited to stockholders equity. Ampio subsequently filed a claim on the indemnification escrow and was awarded 95,700 shares of Ampio stock to reflect the full value of the 223,024 options issued in exchange for the shares relinquished. The remaining 154,300 indemnification escrow shares were allocated to the appropriate shareholders on December 31, 2011. The 98,416 shares relinquished with the agreement and the 95,700 escrow shares awarded were cancelled. After these adjustments, the net merger stock issued was 8,473,789.

The following table summarizes the amounts of estimated fair value of net assets acquired at the acquisition date:

Notes receivable from Ampio	$ 300,000
Non-interest bearing advances and accrued interest receivable from Ampio	127,000
In-process research and development	7,500,000
Patents	500,000
Liabilities	(574,000)
	$ 7,853,000

The fair value of in-process research and development and patents was based on an independent third party appraisal.

BioSciences had Net Operating Loss (NOL) carryforwards for federal and state income tax purposes of approximately $11,200,000, which expire from 2016 through 2030. Under the provisions of the Internal Revenue Code, substantial changes in BioSciences ownership may result in limitations on the amount of the NOL carryforwards which can be utilized in future years. Ampio provided a full valuation allowance against BioSciences $4,600,000 deferred tax asset (primarily associated with the NOL carryforwards), based on the weight of available evidence, both positive and negative, which indicated that it is more likely than not that such benefits will not be realized.

Note 3 License Agreement/Revenue Recognition

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

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

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Note 4 Derivative Financial Instruments

Ampio issued senior convertible unsecured debentures and related warrants in five tranches between August 2010 and January 2011 (the Senior Convertible Debentures). On February 28, 2011, Ampio s Senior Convertible Debentures were converted to 1,281,852 shares of common stock. The related warrants and the components of warrant derivative liability as reflected in the balance sheet as of September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012 (unaudited)		December 31, 2011 (audited)	
	Indexed Shares	Fair Values	Indexed Shares	Fair Values
Ampio s financings giving rise to derivative financial instruments:				
Warrants (dates correspond to hybrid financing):				
Tranche 1 - August 10, 2010	51,215	$ 140,681	51,214	$ 183,132
Tranche 2 - October 22, 2010-October 29, 2010			7,040	25,650
Tranche 3 - November 12, 2010-November 29, 2010	66,434	232,118	66,434	295,146
Tranche 4 - December 13, 2010-December 29, 2010	13,686	39,992	13,686	50,497
Tranche 5 - January 20, 2011-January 31, 2011	29,344	45,061	29,344	56,486
	160,679	$ 457,852	167,718	$ 610,911

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

The following table summarizes the effects on Ampio s unrealized (gain) loss associated with the warrants recorded at fair value by type of financing for the three and nine months ended September 30, 2012 and 2011, respectively:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Warrants (dates correspond to financing)				
Tranche 1 - August 10, 2010	$ (64,288)	$ (64,965)	$ (42,451)	$ 256,910
Tranche 2 - October 22, 2010-October 29, 2010	(8,483)	(5,854)	(5,278)	119,869
Tranche 3 - November 12, 2010-November 29, 2010	(100,357)	(137,043)	(63,028)	494,162
Tranche 4 - December 13, 2010-December 29, 2010	(16,995)	(17,165)	(10,505)	58,655
Tranche 5 - January 20, 2011-January 31, 2011	(18,811)	(49,383)	(11,425)	62,952
	(208,934)	(274,410)	(132,687)	992,548
Day-one derivative expense:				
Tranche 5 - January 20, 2011-January 31, 2011				925,139
	$ (208,934)	$ (274,410)	$ (132,687)	$ 1,917,687

The following table summarizes the effects on Ampio s unrealized loss associated with hybrid debt instruments recorded at fair value by type of financing for the three and nine months ended September 30, 2011. There are no ongoing charges since all hybrid financial instruments were converted/eliminated in the first quarter of 2011.

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	Three and Nine Months Ended September 30, 2011
Hybrid debt instruments (dates correspond to financing):	
Tranche 1 - August 10, 2010	$ 1,245,707
Tranche 2 - October 22, 2010-October 29, 2010	578,744
Tranche 3 - November 12, 2010-November 29, 2010	2,901,987
Tranche 4 - December 13, 2010-December 29, 2010	330,829
Tranche 5 - January 20, 2011-January 31, 2011	528,155
	$ 5,585,422

Note 5 Fair Value Considerations

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

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

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

Level 1: Inputs that reflect unadjusted quoted prices in active markets that are accessible to Ampio for identical assets or liabilities;

Level 2: Inputs include quoted prices for similar assets and liabilities in active or inactive markets or that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs that are supported by little or no market activity.

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

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The following table presents Ampio s financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2012 and December 31, 2011, by level within the fair value hierarchy:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
September 30, 2012 (unaudited)				
ASSETS				
Money market funds (included in cash and cash equivalents)	$ 18,874,103	$	$	$ 18,874,103
LIABILITIES				
Warrant derivative liabilities			457,852	457,852
December 31, 2011 (audited)				
ASSETS				
Money market funds (included in cash and cash equivalents)	$ 10,345,183	$	$	$ 10,345,183
LIABILITIES				
Warrant derivative liabilities			610,911	610,911

The warrant derivative liability for the warrants associated with debt was valued using the binomial lattice-based valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions in valuing the warrant liability were as follows as of September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Warrants (All Tranches):		
Exercise price	$ 1.75	$ 1.75
Volatility	154.88%	174.85%
Equivalent term (years)	0.86 - 1.33	1.61 - 2.08
Risk-free interest rate	0.16%	0.25%

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

	Derivative and Hybrid Debt Instruments
Balance as of December 31, 2011	$ (610,911)
Total gain (loss) (realized or unrealized):	
Included in earnings	132,687
Warrant exercises	20,372
Balance as of September 30, 2012	$ (457,852)

Note 6 Commitments and Contingencies

In connection with upcoming clinical trials, Ampio has a remaining commitment of $50,000 on a $500,000 contract related to the Ampion study drug production and corresponding studies and documentation. Ampio also has contracted for production of the Zertane study drug and Zertane ED development for approximately $1,200,000, with 30%, due upon signing, which is included in accounts payable. As of September 30, 2012, the remaining unrecorded commitments for this contract and others related to this study total approximately $1,114,000.

No commitments remain under the terms of the Clinical Research Agreement with St. Michaels Hospital in Toronto, Canada or ancillary and related contracts.

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As of September 30, 2012, Ampio has employment agreements with three of its executive officers. Under the employment agreements, the executive officers are collectively entitled to receive $745,000 in annual salaries. The employment agreements expire August 2013 with respect to our chief scientific officer and chief regulatory affairs officer, and January 2015 with respect to our chief executive officer.

Ampio entered into a Sponsored Research Agreement with Trauma Research LLC, a related party, in September 2009. Under the terms of the Sponsored Research Agreement, Ampio is to provide personnel and pay for leased equipment. Ampio also reimburses third party expenses incurred on its behalf. The payments for reimbursements and leased equipment were $2,112 for the three months and $34,013 for the nine months ended September 30, 2011 and none in 2012. The Sponsored Research Agreement may be terminated without cause by either party on 180 day notice. Obligations under the Sponsored Research Agreement are as follows:

2012	$ 65,938
2013	263,750
2014	175,833
	$ 505,521

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

On May 20, 2011, Ampio entered into a 38 month non-cancellable operating lease for office space effective June 1, 2011. As of September 30, 2012 the remaining obligation under this lease is $34,476 for 2012, $105,060 for 2013 and $62,118 for 2014.

Note 7 Common Stock

Capital Stock

At September 30, 2012 and December 31, 2011, Ampio had 100,000,000 shares of common stock authorized with a par value of $0.0001per share and 10,000,000 shares of preferred stock authorized with a par value of $0.0001per share.

Shelf Registration

On September 30, 2011, Ampio filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to register Ampio common stock and warrants in an aggregate amount of up to $80 million for offering from time to time in the future. The registration statement also registers for possible resale up to one million shares of common stock to be sold by the selling stockholders named in the registration statement in future public offerings. On October 13, 2011 Ampio filed an amendment to identify potential selling stockholders and the number of shares they would be eligible to sell in the event of a future public offering. The shelf registration was declared effective on October 28, 2011 by the Securities and Exchange Commission. At September 30, 2012 approximately $53.7 million is left on the shelf with 519,400 remaining shares eligible for sale by selling stockholders.

Underwritten Public Offering

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

Registered Direct Offering

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

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Private Placement Offering

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

Note 8 Equity Instruments

Options

Ampio adopted a stock plan in March 2010. The number of shares of common stock reserved for issuance to officers, directors, employees and consultants through various means, including incentive stock options, non-qualified stock options, restricted stock grants, and other forms of equity equivalents was increased from 2,500,000 to 4,500,000 in August 2010 and to 5,700,000 by vote of the shareholders on December 3, 2011. In May 2012, Ampio awarded grants of options to purchase 1,505,000 shares of common stock to directors, officers and employees with a weighted average exercise price of $2.76 per share. Grants of options to purchase 1,430,000 shares of common stock vest monthly over three years and options to purchase 75,000 shares of common stock vested immediately. An award of an option to purchase 50,000 shares of common stock, vesting half on February 1, 2013 and half on August 1, 2013, was granted to a consultant at an exercise price of $3.06 in July 2012.

Ampio has computed the fair value of all options granted using the Black-Scholes option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding components of the model, including the estimated fair value of the underlying common stock, risk-free interest rate, volatility, expected dividend yield and expected option life. Changes to the assumptions could cause significant adjustments to valuation. Ampio estimated a volatility factor utilizing a weighted average of comparable published volatilities of peer companies. Due to the small number of option holders, Ampio has estimated a forfeiture rate of zero. Ampio estimates the expected term based on the average of the vesting term and the contractual term of the options. The risk- free interest rate is based on the U.S. Treasury yield in effect at the time of the grant for treasury securities of similar maturity. Ampio has computed the fair value of all options granted during the nine months ended September 30, 2012 using the following assumptions:

Expected volatility	72% - 92%
Risk free interest rate	0.23% - 0.29%
Expected term (years)	2.8 - 6.5
Dividend yield	0%

Stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding December 31, 2010	2,930,000		9.63
Granted	840,000	$ 3.95	
Exercised or forfeited	(372,843)	($ 1.62)	
Issued in connection with BioSciences merger	435,717	$ 1.54	
Outstanding December 31, 2011	3,832,874	$ 2.75	7.31
Granted	1,555,000	$ 2.87	
Exercised or forfeited	(907,143)	$ 1.90	
Outstanding September 30, 2012	4,480,731	$ 2.12	8.18
Exercisable at September 30, 2012	3,215,177	$ 1.76	7.39

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

The following table summarizes stock-based compensation expense for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,		December 18, 2008 (inception) through
	2012	2011	2012	2011	September 30, 2012
Research and development expenses					
Stock options	$ 135,069	$ 143,615	$ 310,685	$ 258,221	$ 1,007,302
General and administrative expenses					
Common stock issued for services			40,000	30,000	1,842,500
Stock options	155,606	684,246	511,851	1,520,317	3,096,102
	$ 290,675	$ 827,861	$ 862,536	$ 1,808,538	$ 5,945,904
Unrecognized expenses at September 30, 2012	$ 2,521,375				
Weighted average remaining years to vest	2.5				

Warrants

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

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding December 31, 2010	206,973	$ 1.75	2.99
Warrants issued to Debenture holders	49,416	$ 1.75	
Warrants exercised	(88,669)	($ 1.75)	
Warrants issued in connection with Private Placement	509,288	$ 3.125	
Outstanding December 31, 2011	677,008	$ 2.78	3.69
Warrants exercised - Debenture holders	(7,041)	($ 1.75)	
Warrants exercised - Private Placement	(54,058)	($ 3.125)	
Warrants issued in connection with Underwritten Offering	138,462	$ 4.0625	
Outstanding September 30, 2012	754,371	$ 3.00	3.26

The exercise price of the warrants associated with the Senior Convertible Debentures was fixed at $1.75 per share and the warrants expire on December 31, 2013. Warrants issued in connection with the 2011 Private Placements are at $3.125 per share and expire March 31, 2016.

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In July 2012, Ampio issued warrants to purchase 138,462 shares of common stock at a price of $4.0625, exercisable from July 12, 2013 through July 12, 2017 in connection with the underwritten public offering. These warrants were valued using the Black-Scholes option pricing model. In order to calculate the fair value of the warrants, certain assumptions were made regarding components of the model, including the closing price of the underlying common stock, risk-free interest rate, volatility, expected dividend yield, and expected life. Changes to the assumptions could cause significant adjustments to valuation. Ampio estimated a volatility factor utilizing a weighted average of comparable published volatilities of peer companies. 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. The offering costs and the additional paid-in capital for the warrants associated with the common stock offering was valued at $180,194 using the Black-Scholes valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions were as follows:

Expected volatility	72%
Risk free interest rate	0.25%
Expected term (years)	3
Dividend yield	0%

Note 9 Related Party Transactions

Ampio has license agreements with the Institute for Molecular Medicine, Inc. (IMM), a nonprofit research organization founded by an officer and director of Ampio who also serves as IMM s executive director. The license agreements were assigned to Life Sciences as a part of the asset purchase from BioSciences. Under the license agreements, Ampio pays the costs associated with maintaining intellectual property subject to the license agreements. In return, Ampio is entitled to deduct twice the amounts it has paid to maintain the intellectual property from any amounts that may become due to IMM under the license agreements, if and when the intellectual property becomes commercially viable and generates revenue. Ampio may cease funding the intellectual property costs and abandon the license agreements at any time. Ampio incurred $90,789 and $53,422 during the nine months ended September 30, 2012 and 2011, respectively, and $30,506 and $12,046 during the three months ended September 30, 2012 and 2011, respectively, in legal and patent fees to maintain the intellectual property subject to the license agreement.

Immediately prior to the Chay Merger on March 2, 2010, Chay accepted subscriptions for an aggregate of 1,325,000 shares of common stock from six officers and employees of Life Sciences, for a purchase price of $150,183. The purchase price was advanced to the six officers and employees by Chay at the time the subscriptions were accepted. These shares were issued immediately before the closing of the Chay Merger but after the shareholders of Chay had approved the merger. The advances are non-interest bearing and due on demand and are classified as a reduction to stockholders equity. During the year ended December 31, 2011 one advance of $22,660 was repaid. During the quarter ended March 31, 2012 an additional repayment of $36,883 was received.

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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 financial statements filed with this report. 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 9, 2012.

Overview

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

We are a development stage biopharmaceutical company engaged in discovering and developing innovative, proprietary pharmaceutical drugs and diagnostic products to identify, treat and prevent a broad range of human diseases including metabolic disorders, eye disease, kidney disease, cancer, acute and chronic inflammation and male sexual dysfunction. We intend to develop proprietary pharmaceutical drugs and diagnostic products, which capitalize on our intellectual property that includes assigned patents, pending patent applications, and trade secrets and know-how, some of which may be the subject of future patent applications. Our intellectual property is strategically focused on three primary areas: new uses for FDA-approved drugs, referred to as repositioned drugs, new molecular entities, or NMEs, and rapid point-of-care tests for diagnosis, monitoring and screening.

On March 23, 2011, we acquired all of the outstanding stock of DMI BioSciences, Inc. (BioSciences) for 8,667,905 shares of our common stock (the merger stock). We acquired BioSciences in order to obtain all rights to Zertane, BioSciences male sexual dysfunction drug for premature ejaculation (PE). The business combination occurred following the satisfaction or waiver of all conditions to closing. As called for in the merger agreement, Ampio issued 405,066 shares of merger stock to holders of BioSciences in-the-money stock options and warrants, 500,000 shares of merger stock to holders of two BioSciences promissory notes in extinguishment of the notes, and placed 250,000 shares of merger stock in an indemnification escrow until December 31, 2011. The remaining 7,512,839 shares of merger stock were issued to the holders of BioSciences common stock on a pro rata basis. As required by the merger agreement, at the closing BioSciences donated back to Ampio s capital 3,500,000 shares of Ampio common stock formerly owned by BioSciences. Ampio separately issued 212,693 options in replacement of 250,850 Biosciences options that were out-of-the-money as of the date of execution of the merger agreement. On June 17, 2011, an additional 223,024 options were issued in exchange for 98,416 previously issued shares of Ampio stock pursuant to an agreement with three former BioSciences option holders. During 2011, we filed a claim on the indemnification escrow and were awarded 95,700 shares of Ampio stock to reflect the full value of the 223,024 options issued in exchange for the shares relinquished. On December 31, 2011 the remaining 154,300 indemnification escrow shares were allocated to the appropriate shareholders. All shares donated back, relinquished and escrow shares awarded to Ampio have been cancelled.

Business Update/Financing Activities

On February 28, 2011, we issued an aggregate of 1,281,852 shares of our common stock in retirement of the Senior Convertible Debentures issued to 21 holders of such debentures. The convertible debentures were previously issued in five tranches. The first tranche consisted of $430,000 in principal amount issued in August 2010 to two directors and an affiliate of one of those directors. The next three tranches consisted of $1.38 million in principal amount issued in October, November and December 2010 to 19 unaffiliated holders (seven of whom were already our shareholders), and the remaining tranche in January 2011 was an increase of $382,000 in principal amount of debentures purchased by five holders who originally purchased debentures in November 2010. The principal amount of the debentures and accrued interest were converted into our common stock at $1.75 per share. Debentures held by two directors and an affiliate of one director were converted on the same terms as debentures held by unaffiliated parties. The debenture holders were collectively issued warrants to purchase 256,389 shares of our common stock as additional consideration for the purchase of the debentures. Those warrants are exercisable at $1.75 per share.

On March 31, April 8 and April 18, 2011, we closed private placements of our common stock (the 2011 Private Placement). A total of 5,092,880 shares of common stock were issued resulting in gross proceeds of $12,732,200, of which we received net proceeds of $10,916,538, after placement agent commissions, non-accountable expenses and other offering costs. The placement agent also received 509,288 warrants valued at $888,664 in connection with the closing. We applied a portion of the private placement proceeds in March and April 2011 to pay accrued expenses, to pay accrued salaries owed to certain of our officers, to reduce accounts payable, and to repay a $100,000 promissory note to Michael Macaluso, our chief executive officer and chairman of the board.

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On September 30, 2011, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to register our common stock and warrants in an aggregate amount of up to $80 million for offering from time to time in the future. The registration statement also registers for possible resale up to one million shares of common stock to be sold by the selling stockholders named in the registration statement in future public offerings. On October 13, 2011 we filed an amendment to identify potential selling stockholders and the number of shares they would be eligible to sell in the event of a future public offering. The shelf registration was declared effective on October 28, 2011 by the Securities and Exchange Commission. At September 30, 2012 approximately $53.7 million is left on the shelf with 519,400 remaining shares eligible for sale by selling stockholders.

On December 27, 2011, we completed a registered direct offering of our common stock A total of 2,220,255 shares were issued at a price of $4.25 per share resulting in gross proceeds of $9,436,084, of which we received net proceeds of $8,454,001, after placement agent commissions, non-accountable expenses and other offering costs. No warrants were issued.

On July 18, 2012, we completed an underwritten public offering for the sale of 5,203,860 shares of common stock at a price of $3.25 per share. Gross proceeds to the Company totaled $16,912,545 with net proceeds of approximately $15,400,000 after underwriter fees and offering expenses. Ampio also issued warrants to purchase 138,462 shares of common stock to the underwriters. These warrants have an exercise price of $4.0625 with a five year term but are not exercisable until July 12, 2013.

The net proceeds of the 2011 and 2012 offerings have been or will be used for general corporate purposes and working capital, including conducting pivotal trials for Ampion and Zertane, Phase II and III trials for Optina, development of the methylphenidate family of compounds through the pre-IND submission, development of the ORP device and commercialization of Zertane and Zertane-ED.

Product Update

We continue to execute our business plan and have moved forward on our three main drug candidates and our device development. In addition, we have evaluated our methylphenidate derivatives family of compounds and have accelerated the development of these compounds. We will continue to evaluate our pre-clinical portfolio and advance drug candidates accordingly.

Ampion for Osteoarthritis of the Knee

The clinical trial has been completed and the preliminary results have been evaluated. A pre-IND meeting with the FDA to obtain clarity for a Phase III pivotal trial was held on May 10, 2012. The first batch of the study drug supply has been manufactured and is undergoing stability studies. We have identified initial sites and investigators and are assessing quotes from clinical research organizations. We anticipate that this United States trial will begin at the end of 2012.

Optina for Diabetic Macula Edema

The clinical trial was discontinued after the planned interim review indicated encouraging results. The detailed analysis of the multiple data point per patient was released on June 11, 2012. Despite the small number of patients, the results showed statistical significance. The results of data analysis of the Canadian trial also indicated important changes in study design and dosage. A successful pre-IND meeting with the FDA s ophthalmology division of the Center for Drug Evaluation and Research (CDER) took place July 31, 2012. Among other things, the meeting provided guidance for approval through the 505(b)2 pathway in the United States, indicated no safety or CMC concerns, confirmed agreement that no additional non-clinical studies are necessary and provided that the measure of efficacy will be based on visual acuity end points. We anticipate that the IND will be filed by the end of 2012.

Zertane for Male Sexual Dysfunction

We reached agreement with the Australian Therapeutic Goods Administration (TGA) on a plan for preparation of manufacturing and common technical documents to obtain regulatory approval for Zertane in Australia. The submission is dependent upon the completion of batch processes by an independent manufacturer but is expected to be made late in the fourth quarter of 2012 or first quarter of 2013 and we hope to obtain approval in Australia as early as 2013.

A Type B pre-IND meeting was held with the FDA on June 20, 2012 to discuss the approval path for Zertane in the U.S. under the 505(b)2 regulations. We are proceeding based on the guidance received and anticipate the completion of modification of the patient reported outcome (PRO) measure as suggested by the FDA and the completion of protocol design for submission of the IND in the first quarter of 2013. As with the TGA submission, the IND submission is also dependent on the manufacturer.

Our sexual drug therapy portfolio was recently expanded with the allowance of the PE-ED patent in Europe and Canada. We expect the United States patent allowance to follow shortly. As a first step for the clinical study of Zertane-ED, we entered into an agreement with Syngene International to begin manufacturing, in compliance with FDA standards, the combination product for use as a study drug in clinical trials to be conducted according to FDA standards and guidelines for approval in South Korea and to support an FDA submission.

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We also entered into a license and distribution agreement with a Brazilian pharmaceutical company for exclusive rights to market Zertane in Brazil.

Methylphenidate Derivatives for Cancer

We have accelerated the development of our methylphenidate derivatives family of compounds (NCE-001) to preclinical development for the treatment of glioblastoma multiforme (brain tumor), renal cell (clear cell) carcinoma and inflammatory breast cancer following the granting of multiple composition of matter and use patents in the USA, Canada, Europe and China. We have preliminarily agreed with Syngene International that Syngene will manufacture relevant compounds and conduct all preclinical stages of development to an IND submission to the FDA and we are in the process of finalizing a definitive agreement relating thereto. These cancers do not have adequate treatment options so NCE-001 may qualify for an accelerated approval path by regulatory agencies, including the FDA.

ORP, Point-of-Care Diagnostic Device

Enrollment of patients has been completed for our clinical trials and the analysis of the results has begun. The results will determine the clinical utility of this technology. We intend to prepare a 510(K) FDA submission upon completion of data analysis.

Management Update

On January 9, 2012, we announced that our Chief Executive Officer, Donald B. Wingerter, Jr., had requested and was granted a compassionate leave from all duties as CEO, member of the Board of Directors and an employee. Compensation and benefits totaling $634,000 have been paid to Mr. Wingerter pursuant to terms of his employment contract. This includes a lump sum payment of two years salary, a supplemental payment and two years of continued health benefits. All of his outstanding stock option awards vested, bringing total stock options exercisable at $1.03 per share to 600,000 shares. The 325,000 shares of Ampio common stock owned by Mr. Wingerter were subject to the terms of a lock-up agreement that has expired. Ampio s Chairman of the Board, Michael Macaluso, was appointed Chief Executive Officer concurrent with this departure with his compensation set at $195,000 per year.

Lockups

In July 2012 two of the executive officers and directors of Ampio holding approximately 4,700,000 shares of common stock voluntarily extended their lockup restrictions to January 1, 2013. These two voluntary lockups allow for the sale of collectively up to 429,400 shares as selling stockholders should we decide to sell stock in a future public offering. These executives did not participate as selling stockholders in the July 2012 offering.

Selling stockholders in the July 2012 offering were subject to a lockup up of their remaining shares. This lockup expired on October 16, 2012.

All lockup agreements related to the stock issued in connection with the acquisition of BioSciences expired on June 30, 2012.

Known Trends or Future Events

We have not generated any significant revenues and have therefore incurred significant net losses since our inception in December 2008. The assets we purchased from BioSciences in April 2009 generated minimal revenues prior to their acquisition. Unless we secure a collaborator for one or more of our product candidates and generate substantial license revenues, we will continue to need additional capital in order to continue to implement our business strategy. Although we have raised capital in the past and raised net proceeds of approximately $15.4 million and $19.4 million through the sale of common stock in 2012 and 2011, 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. Due to the time required to conduct clinical trials and obtain regulatory approval for any of our product candidates, we anticipate it will be some time before we generate substantial revenues, if ever. 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, such as the license agreement entered into in September 2011 with a major Korean pharmaceutical company.

At this time, due to the risks inherent in the clinical trials and the stage of development of our product candidates, we are unable to estimate with any certainty the costs we will incur for the continued development of our product candidates for commercialization

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as clinical development timelines, probability of success, and development costs vary widely. While our current focus is primarily on obtaining regulatory approval for our product candidates, initiating pre-clinical development of our methylphenidate product family, and the development of the ORP device, we anticipate that we will make determinations on an ongoing basis as to which product candidates to pursue and how much funding to direct to each product candidate in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment of each product candidate s commercial potential and our financial position. We cannot forecast with any degree of certainty which product candidates will be subject to future collaborative or licensing arrangements, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our product candidate plans and capital requirements.

Significant Accounting Policies and Estimates

Our financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America. The preparation of the 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 revenues and 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, fair value of our derivative instruments, 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.

Results of Operations September 30, 2012 Compared to September 30, 2011

Results of operations for the three months ended September 30, 2012 (the 2012 quarter) and the three months ended September 30, 2011 (the 2011 quarter) reflected losses of approximately $2,584,000 and $2,576,000, respectively. These losses include non-cash gains and charges related to derivative expense, stock based compensation and depreciation and amortization in the amount of approximately $97,000 in the 2012 quarter and $569,000 in the 2011 quarter.

Results of operations for the nine months ended September 30, 2012 (the 2012 period) and the nine months ended September 30, 2011 (the 2011 period) reflected losses of approximately $7,916,000 and $14,173,000 respectively. These losses include non-cash gains and charges related to derivative expense, common stock and stock based compensation, losses on the fair value of debt instruments and depreciation and amortization in the amount of approximately $777,000 in the 2012 period and $9,339,000 in the 2011 period.

Revenue

We are a development stage enterprise and have not generated material revenue in our operating history. The $37,500 license revenue recognized in the 2012 period and $6,250 in the 2011 period represents the amortization of the upfront payment received on our license agreement. The initial payment of $500,000 from the license agreement with a Korean pharmaceutical company was deferred and is being recognized over 10 years.

Expenses

Research and Development

Research and development costs are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Labor	$ 387,000	$ 403,000	$ 1,120,000	$ 981,000
Patent costs	416,000	244,000	1,092,000	577,000
Stock-based compensation	135,000	143,000	311,000	258,000
Clinical trials and sponsored research	1,159,000	514,000	2,357,000	1,085,000
Consultants	38,000	100,000	280,000	145,000

$ 2,135,000	$ 1,404,000	$ 5,160,000	$ 3,046,000

Research and development costs consist of labor, research and development of patents and intellectual property, stock-based compensation as well as drug development and clinical trials. Costs of research and development increased $731,000 or 52% for the

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2012 quarter compared to the 2011 quarter and increased $2,114,000 or 69% for the 2012 period compared to the 2011 period due to continued focus on the development of and pursuit of regulatory clarity on our primary product candidates, Ampion, Optina and Zertane, and the development of our ORP device. We also continued to maintain and strengthen our patent portfolio on our primary product candidates. Labor costs also increased as a result of the increased efforts in this area.

General and Administrative

General and administrative costs are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Labor	$ 172,000	$ 171,000	$ 1,083,000	$ 624,000
Stock-based compensation	156,000	684,000	552,000	1,520,000
Professional fees	50,000	166,000	283,000	536,000
Occupancy, travel and other	245,000	259,000	838,000	582,000
Directors fees	55,000	92,000	185,000	282,000
	$ 678,000	$ 1,372,000	$ 2,941,000	$ 3,544,000

General and administrative expenses decreased $694,000 or 51% for the 2012 quarter compared to 2011 quarter. The decrease is due primarily to the non-cash stock-based compensation award expense recognized during the 2011 quarter.

The decrease in general and administrative costs in the 2012 period compared to the 2011 period was $603,000 or 17%. Labor costs increased as the result of the employment agreement payout to our former CEO upon the granting of an indefinite compassionate leave of absence. Stock based compensation decreased in the 2012 period from the 2011 period due to the reduction of new options being issued and the majority of previously issued options having vested. Professional fees consist primarily of legal, audit and accounting costs, costs related to public company compliance costs, and consulting related to capital formation. In the 2011 period we had higher professional fees related to the filing of an S-4 document and the acquisition of BioSciences. Occupancy, travel and other expenses consist of rent, insurance, investor relations and other public company costs such as exchange listing. The increase in the 2012 period relates primarily to NASDAQ annual fees and increased investor relations activities.

Derivative income (expense)

We recorded non-cash derivative income (expense) in connection with our hybrid financial instruments consisting of debentures and related warrants. This income was approximately $209,000 in the 2012 quarter compared to $274,000 of income in the 2011 quarter, and $133,000 of income in the 2012 period compared to $1,918,000 (expense) in the 2011 period. These amounts relate to the fair value at inception and subsequent changes in fair value of the debentures issued in 2011 and 2010 stemming from the embedded derivative features (conversion options, down-round protection and mandatory conversion provisions) and the changes in fair value of warrants issued in conjunction with the debentures.

Unrealized loss on fair value of debt instruments

We recorded approximately $5.6 million in non-cash unrealized loss on fair value of debt instruments in the first quarter of 2011. The expense reflects the change in fair value of our debentures prior to their conversion to common stock in February 2011 and stemmed primarily from the increase in our common stock price between December 31, 2010 and February 28, 2011, when the debentures were converted.

Net Cash Used in Operating Activities

During the 2012 period our operating activities used approximately $7.1 million in cash. The use of cash was approximately the same as the $7.9 million net loss. Non-cash charges for common stock and stock based compensation, depreciation and amortization was approximately $777,000. Current assets in the form of prepaid expenses used cash of $99,000 and the increase in accounts payable provided cash of approximately $159,000.

During the 2011 period our operating activities used approximately $5.0 million in cash. The use of cash was significantly lower than the $14.1 million net loss, primarily as a result of non-cash charges of approximately $1.8 million for common stock issued for services and stock based compensation and $7.5 million in unrealized loss on fair value of debt instruments and derivative expense. Net cash of $417,500 was received from our licensing agreement. We used approximately $658,000 in cash from operations to pay deferred salaries, accounts payable, related party payables and net changes in other current assets and $122,000 for the purchase of fixed assets and rent deposits.

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Net Cash from Financing Activities

Net cash provided by financing activities in the 2012 period was $15.4 million in net proceeds from the underwritten public offering, a cash exercise of stock options and warrants of $630,000 and a repayment of approximately $37,000 related to the stockholders advances made in 2010.

Net cash provided by our financing activities was $11.4 million for the 2011 period. During this period, we received $382,000 from the sale of additional senior unsecured debentures and $10.9 million from the sale of common stock and $219,000 from the exercise of options and warrants. We also repaid a $100,000 note to a director of Ampio and collected a $22,660 advance from one stockholder.

Liquidity and Capital Resources

At September 30, 2012, Ampio had cash of approximately $20.3 million and payables of approximately $789,000.

As a development stage 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. In the nine months ended September 30, 2012, we used net cash in operating activities of $7.1 million and inception to date of $20.3 million. We have historically funded our operations through sales of common stock and debt securities.

During the first nine months of 2012, (i) we completed three pre-IND meetings with the FDA that provided clarity for pivotal trials of Ampion and Zertane and approval of 505(b)2 pathway for Optina, and (ii) we accelerated the development of our methylphenidate family of compounds. In July 2012, we completed a public offering of 5,203,860 shares of common stock resulting in gross proceeds to the Company of $16,912,545 with proceeds net of cash offering and underwriting expenses of approximately $15,400,000. We are reviewing solicited proposals and quotes for the clinical trials, ORP device requirements and other costs associated with our development programs. We believe that we have adequate capital to execute most, if not all, of our product strategies; however, we may also enter into licensing or collaboration agreements to further leverage our capital resources. Our on-going expenses such as payroll, legal and accounting and overhead are currently anticipated to be in the range of $600,000 per month, inclusive of new patent applications and maintenance of existing patents. Assuming this cash burn rate stays the same, along with anticipated cash expenditures to execute our product strategies, we expect our cash reserves to last into 2014.

To the extent we decide to further expand our clinical trials, 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. Over the last two 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.

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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 has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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.
Certain factors exist which may affect the Company s business and could cause actual results to differ materially from those expressed in any forward-looking statements. The Company has not experienced any material changes from those risk factors as previously disclosed in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 9, 2012 and the Company s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012. However, the Company will continue to require additional capital, the receipt of which is not assured.

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.
On October 29, 2012 the Company formally notified the NASDAQ Capital Market that (I) the Company had recently determined that it had inadvertently become non-compliant with Section 5605(c)(2)(a) of the NASDAQ Listing Rules and (2) it had immediately cured the non-compliance. Richard B. Giles has been a director of the Company and an audit committee member since August 2010. His wife, Barbara, became a non-executive employee on January 2, 2011. When the Company became aware that its interpretation of the audit committee member independence rules was incorrect, Mrs. Giles immediately resigned from the Company, effective October 24, 2012. The Company received written notification from NASDAQ dated October 31, 2012 stating that based upon Mrs. Giles resignation, it considers the matter closed.

Item 6. Exhibits

Exhibit Number	Description
10.1	Clinical Batch Manufacturing Agreement between Ethypharm S.A. and Ampio Pharmaceuticals, Inc. dated September 10, 2012.*
10.2	Manufacturing and Supply Agreement between Ethypharm S.A. and Ampio Pharmaceuticals, Inc. dated September 10, 2012.*

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.INS	XBRL Instance Document+
101.SCH	XBRL Taxonomy Extension Schema Document+
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document+
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document+
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document+

* Confidential treatment has been applied for with respect to certain portions of these exhibits.

** 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.

\+ Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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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

Chief Executive Officer

Date: November 2, 2012

By: /s/ Mark D. McGregor
Mark D. McGregor

Chief Financial Officer

Date: November 2, 2012