FIRST MIDWEST BANCORP INC
Form 4
February 24, 2015

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Guinta Caryn J

(Last) (First) (Middle)

ONE PIERCE PLACE, SUITE 1500

(Street)

ITASCA, IL 60143

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIRST MIDWEST BANCORP INC [FMBI]

3. Date of Earliest Transaction (Month/Day/Year)
02/20/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP, Dir of Employee Resources

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/20/2015		F		1,063 (1)	D	$ 16.58	27,410	D	
Common Stock	02/22/2015		F		706 (2)	D	$ 16.58	26,704 (3)	D	
Common Stock								15,452	I	By Profit Sharing Plan Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Guinta Caryn J ONE PIERCE PLACE SUITE 1500 ITASCA, IL 60143			EVP, Dir of Employee Resources	

Signatures

Andrea L. Stangl, Attorney-in-fact for Caryn J. Guinta	02/24/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) On February 20, 2013 the Issuer granted the Reporting Person a restricted stock award of 5,836 restricted units of First Midwest Bancorp, Inc. common stock under the Amended and Restated First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan which were scheduled to vest in two equal annual installments on the second and third anniversary of the date of grant. On February 20, 2015, 2,918 units of the originally granted restricted stock award vested, of which 1,063 units were withheld in order to satisfy the Reporting Person's tax withholding obligations.

(2) On February 22, 2012 the Issuer granted the Reporting Person a restricted stock award of 3,874 restricted shares of First Midwest Bancorp, Inc. common stock under the Amended and Restated First Midwest Bancorp, Inc. Omnibus Stock and Incentive Plan which were scheduled to vest in two equal annual installments on the second and third anniversary of the date of grant. On February 22, 2015, the remaining 1,937 shares of the originally granted restricted stock award vested, of which 706 shares were withheld in order to satisfy the Reporting Person's tax withholding obligations.

(3) 15,178 of these shares are restricted stock units.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. nbsp; (330,000)

Deposits

(23,856) 15,000 (35,000) (43,856)

Net cash used in investing activities

(1,665,239) 15,000 (119,705) (1,769,944)

Cash flows from financing activities:

Proceeds from related party notes payable and debentures

382,000 2,593,000

Proceeds from sale of common stock

25,742,806 17,542,867 22,435,500 67,089,230

Costs related to sale of common stock

(297,768) (1,559,395) (2,797,747) (4,654,910)

Proceeds from sale of Luoxis common stock (Note 3)

4,652,500 4,652,500

Costs related to sale of Luoxis common stock (Note 3)

(672,210) (672,210)

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 provided by financing activities

29,425,328 16,020,355 19,942,413 70,060,661

Net change in cash and cash equivalents	8,626,932	6,320,192	10,691,046	26,309,449
Cash and cash equivalents at beginning of period	17,682,517	11,362,325	671,279	
Cash and cash equivalents at end of period	$26,309,449	$17,682,517	$11,362,325	$26,309,449

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

Issuance of Luoxis stock for patents (Note 3)

$50,000 $ $ $50,000

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

Warrant compensation from Luoxis common stock offering costs (Note 2)

$313,064 $ $ $313,064

Merger liability - shares exchanged for options

$ $ $574,000 $574,000

Debenture warrant exercise fair value adjustment

$901,611 $20,372 $629,192 $1,551,175

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

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AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 1 Business, Basis of Presentation and Merger

These financial statements represent the consolidated financial statements of Ampio Pharmaceuticals, Inc. (Ampio or the Company), formerly known as Chay Enterprises, Inc. (Chay), and its wholly owned subsidiaries, DMI Life Sciences, Inc.(Life Sciences), DMI Acquisition Corp., DMI BioSciences, Inc. (BioSciences), Vyrix Pharmaceuticals, Inc. (Vyrix) and Luoxis Diagnostics, Inc. (Luoxis), a 80.9% owned subsidiary see Note 3. We are a development stage biopharmaceutical company focused on primarily 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.

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, 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 as described in Note 14 Related Party Transactions. 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. Pro-forma information has not been presented as the financial information of Chay was insignificant.

Subsequent to the Merger, Chay Enterprises, Inc. was renamed Ampio Pharmaceuticals, Inc.

On March 23, 2011, Ampio acquired BioSciences (the BioSciences Merger). Bioscience s 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 4 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.

Note 2 Summary of Significant Accounting Policies

Principals of Consolidation

These consolidated financial statements include the accounts of Ampio and its wholly-owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

Ampio considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market fund investments. Ampio s investment policy is to preserve principal and maintain liquidity. Ampio periodically monitors its positions with, and the credit quality of, the financial institutions with which it invests. Periodically, throughout the year, Ampio has maintained balances in excess of federally insured limits.

Revenue Recognition/Deferred Revenue

Payments made upon signing of license agreements are for the right to use the license and are deferred and amortized over the lesser of the license term or patent life of the licensed drug. Milestone payments relate to obtaining regulatory approval in the territory, cumulative sales targets, and other projected milestones and are recognized at the time the milestone requirements are achieved. Royalties will be recognized as revenue when earned.

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Fixed Assets

Fixed assets are recorded at cost and are depreciated on the straight-line method over estimated useful lives, generally five years. Fixed assets consist of the following:

	December 31, 2013	December 31, 2012
Manufacturing Facility/Clean Room - in progress	$ 1,000,843	$
Office furniture and equipment	116,088	84,705
Lab equipment	279,157	
Less accumulated depreciation	(97,584)	(25,415)
Fixed assets, net	$ 1,298,504	$ 59,290

The Company recorded the following depreciation expense in the respective periods:

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	December 18, 2008 (Inception) through December 31, 2013
Depreciation Expense	$ 72,169	$ 16,940	$ 8,475	$ 97,584

Patents

Costs of establishing patents, consisting of legal and filing fees paid to third parties, are expensed as incurred. The fair value of the Zertane patents, determined by an independent, third party appraisal to be $500,000, acquired in connection with the March 2011 acquisition of BioSciences is being amortized over the remaining U.S. patent lives of approximately 11 years beginning April 1, 2011. Patents consist of the following:

	December 31, 2013	December 31, 2012
Patents	$ 880,000	$ 500,000
Less accumulated armortization	(145,043)	(79,532)
Patents, net	$ 734,957	$ 420,468

The Company recorded the following amortization expense in the respective periods:

Year Ended December 31, December 18, 2008

	2013	2012	2011	(Inception) through December 31, 2013
Amortization Expense	$ 65,511	$ 45,456	$ 34,076	$ 145,043

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Future amortization is as follows:

2014	$ 70,789
2015	70,789
2016	70,789
2017	70,789
2018	70,789
Thereafter	381,012
	$ 734,957

In-Process Research and Development

In-process research and development (IPRD) relates to the Zertane product and clinical trial data acquired in connection with the March 2011 business combination of BioSciences Note 4 Acquisition of DMI BioSciences. The $7,500,000 recorded was based on an independent third party appraisal of the fair value of the assets acquired. IPRD is considered an indefinite-lived intangible asset and its fair value will be assessed annually and written down if impaired. Once the Zertane product obtains regulatory approval and commercial production begins, IPRD will be reclassified to an intangible that will be amortized over its estimated useful life.

Use of Estimates

The preparation of consolidated financial statements in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the fair value of warrant derivative liability, hybrid debt instruments, valuation allowances, stock-based compensation and assumptions in evaluating impairment of indefinite lived assets. Actual results could differ from these estimates.

Derivatives

Ampio accounted for hybrid financial instruments (debentures with embedded derivative features conversion options, down-round protection and mandatory conversion provisions) and related warrants by recording the fair value of each hybrid instrument in its entirety and recording the fair value of the warrant derivative liability. The fair value of the hybrid financial instruments and related warrants was calculated using a binomial-lattice-based valuation model. Ampio recorded a derivative expense at the inception of each instrument reflecting the difference between the fair value and cash received. Changes in the fair value in subsequent periods were recorded as unrealized gain or loss on fair value of debt instruments for the hybrid financial instruments and to derivative income or expense for the warrants. Accounting for hybrid financial instruments and derivatives is discussed more fully in Note 7 Short Term Debt. The fair value of warrants issued in connection with the common stock offerings was valued using a Black-Scholes option pricing model.

Income Taxes

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The amount of income taxes and related income tax positions taken are subject to audits by federal and state tax authorities. Ampio has adopted accounting guidance for uncertain tax positions which provides that in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50% likely to be realized upon recognition of the benefit. Ampio believes that it has no material uncertain tax positions and has fully reserved against Ampio s future tax benefit with a valuation allowance and do not expect significant changes in the amount of unrecognized tax benefits that occur within the next twelve months. Ampio s policy is to record a liability for the difference between the benefits that are both recognized and measured pursuant to FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (ASC 740-10) and tax position taken or expected to be taken on the tax return. Then, to the extent that the assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. Ampio reports tax-related interest and penalties as a component of income tax expense. During the periods reported, management of Ampio has concluded that no significant tax position requires recognition under ASC 740-10. The Company is no longer subject to income tax examinations for federal income taxes before 2010 or for Colorado before 2009.

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Net Loss per Common Share

Basic earnings per share include no dilution and are computed by dividing income available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in the earnings of Ampio. Basic and diluted loss per share was the same in 2013, 2012 and 2011. Although there were common stock equivalents of 5,662,748, 5,677,186 and 4,509,882 shares outstanding at December 31, 2013, 2012 and 2011, respectively, consisting of stock options and warrants; they were not included in the calculation of earnings per share because they would have been anti-dilutive.

Stock-Based Compensation

Ampio accounts for share based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. Ampio determines the estimated grant fair value using the Black-Scholes option pricing model and recognizes compensation costs ratably over the vesting period using the straight-line method.

Research and Development

Research and development costs are expensed as incurred with expense recorded in the respective periods as follows:

	Year Ended December 31,			December 18, 2008 (Inception) through
	2013	2012	2011	December 31, 2013
Research and development costs	$ 18,288,871	$ 7,493,824	$ 6,648,397	$ 35,473,596

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts payable and other current assets and liabilities are carried at cost which approximates fair value due to the short maturity of these instruments. Hybrid financial instruments such as convertible debentures and related warrants are recorded at estimated fair value based on a binomial-lattice based valuation model.

Impairment of Long-Lived Assets

Ampio routinely performs an annual evaluation of the recoverability of the carrying value of its long-lived assets to determine if facts and circumstances indicate that the carrying value of assets or intangible assets may be impaired and if any adjustment is warranted. Based on Ampio s evaluation as of December 31, 2013, no impairment existed for long-lived assets.

Newly Issued Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740) . The amendment is designed to provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is effective for annual and interim periods beginning after December 15, 2013. The adoption of this guidance is not expected to have a significant impact on the Company s financial position or results of operations.

Note 3 Formation of Subsidiaries

On January 24, 2013, Ampio formed a wholly-owned subsidiary, Luoxis, to focus on the development and commercialization of the Oxidation Reduction Potential (ORP) technology platform. The ORP technology indicates disease severity and progression across a wide range of critical and chronic illnesses.

Luoxis was funded through a private placement launched on February 15, 2013. On March 15, 2013, an initial closing was completed and two additional closings were completed on April 30 and May 31, 2013. A total of 4,652,500 shares were issued at $1.00 per share resulting in $4,652,500 of gross proceeds. Net proceeds were $3,980,290 after placement agent and legal fees. The placement agent also received 465,250 warrants to purchase Luoxis common stock valued at $313,064 in connection with the closing, which amount has been included in total offering costs in the consolidated statement of changes in stockholders equity (deficit). The warrants have a term of 5 years and an exercise price of $1.00. The warrants were issuable at the final closing and exercisable one year thereafter. Concurrent with the March 15, 2013 closing, $330,000 was paid to Trauma Research LLC and 50,000 shares of Luoxis common stock valued at $50,000 was issued to Institute for Molecular Medicine, Inc., both related parties, for assignment of all patents previously licensed by Ampio. The patents will be amortized over an overall estimated life of 15 years.

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As a result of the private placement closings, Ampio owns 80.9% of Luoxis. The consolidated financial statements include Luoxis since Ampio has a controlling financial interest and the third-party holdings (19.1%) are referred to as non-controlling interests . The Luoxis cash balance, included in the consolidated financial statements at December 31, 2013, totaled $1,703,047.

On November 18, 2013, Ampio formed Vyrix Pharmaceuticals, Inc., a wholly-owned subsidiary, to provide a platform to focus and monetize its sexual dysfunction portfolio.

Note 4 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 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 IPRD and patents was based on an independent third party appraisal.

Note 5 Asset Purchase Agreement/Product Technology License

On December 2, 2011, Ampio entered into a $2,000,000 Asset Purchase Agreement with Valeant International (Barbados) SRL (formerly BioVail Laboratories International) (Valeant). The agreement provides for the sale and transfer of all of Valeant s rights, title and interest in and to a license agreement containing patented technology, specified data, information, manufacturing rights and know-how relating to an ODT formulation for Zertane, including samples of the Zertane product, in exchange for cash of $2,000,000 and a 3% royalty on net sales. This Product License is a major component for documenting the manufacturing process for regulatory approval and accelerating the timeline for commercialization of Zertane.

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The ODT formulation has not been petitioned for regulatory approval and, since the License has no alternative future use, the cost of this purchase has been expensed.

Note 6 License Agreement/Revenue Recognition

On September 8, 2011, Ampio entered into a license, development and commercialization agreement, effective as of August 23, 2011, with a major Korean pharmaceutical company. The agreement grants the pharmaceutical company exclusive rights to market Zertane in South Korea for the treatment of PE and for a combination drug to be developed, utilizing Zertane and an erectile dysfunction drug. Upon signing of the agreement, Ampio received a $500,000 upfront payment, the net proceeds of which were $417,500 after withholding of Korean tax. The upfront payment has been deferred and is being recognized as license revenue over a ten year period. Milestone payments of $3,200,000 will be earned and recognized contingent upon achievement of regulatory approvals and cumulative net sales targets, which may take several years. In addition, Ampio will earn a royalty based on 25% of net sales, as defined, if the royalty exceeds the transfer price of the Zertane product.

Note 7 Short Term Debt

Senior Convertible Unsecured Related Party Debentures

On August 8, 2010, Ampio issued $430,000 face value Senior Convertible Unsecured Debentures to two of its directors and an affiliate of one of those directors (Related Party Debentures) and warrants indexed to 21,500 shares of Ampio common stock for net cash proceeds of $430,000. The Related Party Debentures accrued interest at 8% per annum. Both the principal and interest were payable upon the earlier of (i) one business day after the closing of a Public Offering or (ii) April 30, 2011. The principal amount of the Related Party Debentures was convertible into common stock at the lower of (i) $1.75 per share or (ii) the per-share price at which Ampio common stock was sold in an underwritten public offering that was the subject of a registration statement on Form S-1. On February 28, 2011, the holders of the Related Party Debentures converted principal and accrued interest of $430,000 and $18,102, respectively, into 256,058 shares of common stock at $1.75 per share.

Pursuant to the terms of the agreements, a total of 51,215 warrants were issued in connection with the Related Party Debentures which have an expiration date of December 31, 2013. The exercise price of the warrants is $1.75 per share. The warrants are subject to adjustment for recapitalization events. The warrants are described more fully in Note 12 Common Stock.

Senior Unsecured Mandatorily Redeemable Debentures

Ampio issued Senior Unsecured Mandatorily Redeemable Debentures (2011 Redeemable Debentures) with a face value of $382,000 between January 20, 2011 and January 31, 2011. Between October 22, 2010 and December 29, 2010, Ampio issued three tranches of Senior Unsecured Mandatorily Redeemable Debentures (2010 Redeemable Debentures) with an aggregate face value of $1,381,000. All Redeemable Debentures were issued on the same terms. Upon receipt of the principal amount, Ampio issued warrants that entitled the holder to acquire on exercise of the warrants an aggregate number of shares of the Company s common stock equal to 20% of the conversion shares issuable upon conversion of the debentures. The Redeemable Debentures accrued interest at 8% per annum. On February 28, 2011, pursuant to the terms of the debenture agreements, principal of $1,763,000 and interest of $32,146 were converted into 1,025,794 shares of common stock at a price of $1.75 per share.

In connection with the conversion, Ampio issued warrants to purchase 205,174 shares of common stock which included accrued interest on both the 2010 and 2011 Redeemable Debentures. The warrants issued in connection with the 2011 and the 2010 Redeemable Debentures had an expiration date of December 31, 2013. The exercise price for the warrants became fixed at $1.75 per share on February 28, 2011. The warrants were all exercised prior to expiration. The warrants are described more fully in Note 12 Common Stock.

Accounting for the Financings

Because the economic characteristics and risks of the equity-linked conversion options are not clearly and closely related to a debt-type host, the conversion features require classification and measurement as a derivative financial instrument. The other embedded derivative features (down round protection feature and mandatory conversion provision) were also not considered clearly and closely related to the host debt instrument. Further, these features individually were not afforded the exemption normally available to derivatives indexed to a company s own stock. Accordingly, Ampio s evaluation resulted in the conclusion that a compound derivative financial instrument requires bifurcation and liability classification, at fair value. The compound derivative financial instrument consists of (i) the embedded conversion feature, (ii) down round protection feature and (iii) mandatory conversion provision. Current standards contemplate that the classification of financial instruments requires evaluation at each report date.

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GAAP provides an election wherein companies that issue financial instruments with embedded features that require bifurcation may elect, as an alternative to bifurcation, fair value measurement of the hybrid financial instrument in its entirety. After reviewing all circumstances surrounding the issuance and impending redemptions or conversions, Ampio elected the alternative and recorded the Related Party Debentures and the Senior Convertible 2010 and 2011 Redeemable Debentures at fair value.

Ampio also concluded that the Warrants related to these financings which are derivatives by definition, did not meet the principal exemption to liability classification and measurement. Generally, freestanding financial instruments, such as the Warrants that are both indexed to a company s own stock and classified in stockholders equity under certain conditions are exempt from derivative classification and measurement standards. The Warrants did not meet the definition of indexed to a company s own stock on the inception date because the exercise price was subject to adjustment. The Warrants also did not meet all of the eight conditions for classification in stockholders equity. Accordingly, the Warrants are classified as a liability and subject to the classification and measurement standards for derivative financial instruments.

The following table reflects the allocation of the purchase of the 2011 debentures at the time of financing:

	2011 Unsecured
Purchase price allocation	
Hybrid debt instruments	$ 1,096,064
Warrants	211,073
Derivative loss, included in derivative expense	(925,137)
	$ 382,000

Note 8 - Derivative Financial Instruments

The warrants associated with the derivative liability expired on December 31, 2013, however, all the warrants were exercised prior to expiration. The components of warrant derivative liability as reflected in the consolidated balance sheets are as follows:

	December 31, 2013		December 31, 2012	
	Indexed Shares	Fair Values	Indexed Shares	Fair Values
Ampio s financings giving rise to derivative financial instruments:				
Warrants (dates correspond to hybrid financing):				
Tranche 1 - August 10, 2010		$	51,215	$ 116,635
Tranche 2 - October 22, 2010-October 29, 2010				
Tranche 3 - November 12, 2010-November 29, 2010			66,434	195,813
Tranche 4 - December 13, 2010-December 29, 2010			13,686	33,913
Tranche 5 - January 20, 2011-January 31, 2011			29,344	38,410

	$ 160,679	$ 384,771

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

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The following table summarizes the effects on Ampio s income (expense) associated with changes in the fair value of Ampio s derivative financial instruments by type of financing for the respective periods:

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	December 18, 2008 (Inception) through December 31, 2013
Warrants (dates correspond to financing)				
Tranche 1 - August 10, 2010	$ (184,252)	$ 66,497	$ (134,375)	$ (279,555)
Tranche 2 - October 22, 2010-October 29, 2010		5,278	(103,027)	(92,543)
Tranche 3 - November 12, 2010-November 29, 2010	(253,998)	99,333	(329,780)	(518,758)
Tranche 4 - December 13, 2010-December 29, 2010	(35,018)	16,584	(25,917)	(46,416)
Tranche 5 - January 20, 2011-January 31, 2011	(43,572)	18,076	(372,260)	(62,756)
Day-one derivative expense			(925,138)	(2,234,312)
	$ (516,840)	$ 205,768	$ (1,890,497)	$ (3,234,340)

The following tables summarize the effects on Ampio s unrealized gain (loss) associated with hybrid debt instruments recorded at fair value for the respective periods. All hybrid instruments were converted or eliminated in the first quarter of 2011 and, therefore, there are no ongoing charges.

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

	December 18, 2008 (Inception) through December 31, 2013		
	Unrealized Gain	Unrealized (Loss)	Net Unrealized Gain (Loss)

Hybrid debt instruments (dates correspond to financing):			
Tranche 1 - August 10, 2010	$	$ (1,255,978)	$ (1,255,978)
Tranche 2 - October 22, 2010-October 29, 2010	81,008	(578,744)	(497,736)
Tranche 3 - November 12, 2010-November 29, 2010		(2,927,942)	(2,927,942)
Tranche 4 - December 13, 2010-December 29, 2010		(338,100)	(338,100)
Tranche 5 - January 20, 2011-January 31, 2011		(528,155)	(528,155)
	$ 81,008	$ (5,628,919)	$ (5,547,911)

Note 9 Fair Value Considerations

Ampio s financial instruments include cash and cash equivalents, accounts payable, accrued bonuses and warrant derivative liabilities. The carrying amounts of cash and cash equivalents, accounts payable and accrued bonuses 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 little to 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.

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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 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 and asset 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 the 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.

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

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
December 31, 2013				
LIABILITIES				
Warrant derivative liabilities			$	$
December 31, 2012				
LIABILITIES				
Warrant derivative liabilities			$ 384,771	$ 384,771

Significant assumptions in valuing the warrant liability during the years ended were as follows:

	December 31, 2013	December 31, 2012
Warrants (All Tranches):		
Exercise price	$ 1.75	$ 1.75
Volatility	131.55%	148.60%
Equivalent term (years)	0.01 - 0.15	0.61 - 1.08
Risk-free interest rate	0.03%	0.16%

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Significant assumptions in valuing the warrant liability were as follows as of the inception dates:

	2011 Inception Dates			
	January 20, 2011	January 24, 2011	January 31, 2011	February 22, 2011
Warrants (2011 Issuances):				
Exercise price	$ 1.75	$ 1.75	$ 1.75	$ 1.75
Volatility	204.42%	204.42%	204.42%	204.42%
Equivalent term (years)	3.00	3.00	3.00	2.46 - 2.94
Risk-free interest rate	1.07%	1.05%	0.98%	0.74% - 1.22%

Warrants (2010 Issuances):	2010 Inception Dates
Exercise price	$ 1.40 - $1.75
Volatility	212.48%
Equivalent term (years)	3.08 - 3.47
Risk-free interest rate	0.53% - 1.02%

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			
	2013	2012	2011	December 18, 2008 (Inception) through December 31, 2013
Balance as of January 1	$ (384,771)	$ (610,911)	$ (3,141,260)	$
Total losses (realized or unrealized):				
Included in earnings	(516,840)	205,768	(6,215,781)	(6,547,939)
Debenture conversions			9,424,075	9,424,075
Debenture issuances			(1,096,064)	(3,876,164)
Warrant exercises	901,611	20,372	629,192	1,551,175
Warrant issuances			(211,073)	(551,147)
Balance as of December 31	$	$ (384,771)	$ (610,911)	$
Change in unrealized gain (losses) included in earnings relating to derivatives and hybrid debt instruments held as of December 31	$	$	$ (5,585,422)	$ (5,547,911)

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Note 10 Income Taxes

Income tax benefit resulting from applying statutory rates in jurisdictions in which Ampio is taxed (Federal and State of Colorado) differs from the income tax provision (benefit) in Ampio s consolidated financial statements. The following table reflects the reconciliation for the respective periods:

	Years Ended December 31,		
	2013	2012	2011
Benefit at federal statutory rate	(34.0)%	(34.0)%	(34.0)%
State, net of federal income tax impact	(3.1)%	(3.1)%	(3.1)%
Stock-based compensation	3.7%	3.2%	1.6%
Research and development credits	%	%	%
Change in valuation allowance	33.4%	33.9%	35.5%
Effective tax rate	0.0%	0.0%	0.0%

Deferred income taxes arise from temporary differences in the recognition of certain items for income tax and financial reporting purposes. The approximate tax effects of significant temporary differences which comprise the deferred tax assets and liabilities are as follows for the respective periods:

	2013	2012	2011
Current deferred income tax asset (liabilities):			
Accrued Liabilities	$	$	$ 16,000
Deferred Revenue License Agreement	19,000	19,000	19,000
Less: Valuation allowance	(19,000)	(19,000)	(35,000)
Total current deferred income tax asset (liabilities)			
Long-term deferred income tax assets (liabilities):			
Net operating loss carryforward	20,856,000	13,122,000	9,381,000
Derivative Expense			
Section 197 license agreement	638,000	688,000	741,000
Deferred revenue license agreement	123,000	141,000	159,000
Share-based compensation expense	992,000	636,000	559,000
Unrealized gain on fair value of debt instruments			
Property and equipment, due to difference in depreciation	(65,000)	(22,000)	
Acquired patents	(139,000)	(156,000)	(185,000)
	(2,780,000)	(2,780,000)	(2,767,000)

Acquired in-process research and development			
Less: Valuation allowance	(19,625,000)	(11,629,000)	(7,888,000)
Total long-term deferred income tax assets (liabilities)			
Total deferred income tax assets (liabilities)	$	$	$

For the years ended December 31, 2013 and 2012, Ampio s net provision for income taxes was zero for all jurisdictions. The Company recorded $82,500 of foreign tax expense for the year ended December 31, 2011, which related to withholding of foreign income tax for a Korean license agreement that is more fully described at Note 5. This $82,500 represented Ampio s only tax expense for the year ended December 31, 2011.

As of December 31, 2013, Ampio has approximately $57,000,000 in consolidated net operating loss carryforwards that, subject to limitation, may be available in future tax years to offset taxable income. These net operating loss carryforwards expire in 2021 through 2033. Under the provisions of the Internal Revenue Code, substantial changes in the Company s ownership may result in limitations on the amount of NOL carryforwards that can be utilized in future years. As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets as of December 31, 2013 and 2012 that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation in excess of compensation expense recognized for financial reporting. Those deferred tax assets include approximately $4,000,000 of net operating loss deductions. Equity will be increased if and when such deferred tax assets are ultimately realized.

Ampio has provided a full valuation allowance against its deferred tax assets as it has determined that it is not more likely than not that recognition of such deferred tax assets will be utilized in the foreseeable future.

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The amount of income taxes and related income tax positions taken are subject to audits by federal and state tax authorities. Ampio has adopted accounting guidance for uncertain tax positions which provides that in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50% likely to be realized upon recognition of the benefit. Ampio believes that it has no material uncertain tax positions and has fully reserved against Ampio s future tax benefit with a valuation allowance and do not expect significant changes in the amount of unrecognized tax benefits that occur within the next twelve months. Ampio s policy is to record a liability for the difference between benefits that are both recognized and measured pursuant to FASB ASC 740-10, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (ASC 740-10) and tax positions taken or expected to be taken on the tax return. Then, to the extent that the assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. Ampio reports tax-related interest and penalties as a component of income tax expense. During the periods reported, management of Ampio has concluded that no significant tax position requires recognition under ASC 740-10. Ampio files income tax returns in the United States federal and Colorado state jurisdictions. The Company is no longer subject to income tax examinations for federal income taxes before 2010 or for Colorado before 2009.

Note 11 Commitments and Contingencies

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

	Total	2014	2015	2016	2017	2018	Thereafter
Manufacturing Facility/Clean Room - in progress	$ 3,356,288	$ 3,356,288	$	$	$	$	$
Ampion supply agreement	11,475,000	1,275,000	2,550,000	2,550,000	2,550,000	2,550,000	
Clinical research and trial obligations	8,191,680	8,191,680					
Sponsored research agreement with related party	175,833	175,833					
Office lease	3,347,735	137,105	286,966	296,639	306,312	315,985	2,004,729
Employment agreements	1,372,083	935,833	436,250				
	$ 27,918,619	$ 14,071,739	$ 3,273,216	$ 2,846,639	$ 2,856,312	$ 2,865,985	$ 2,004,729

Manufacturing Facility/Clean Room In Progress

The manufacturing facility/clean room will provide commercial scale, FDA compliant, GMP manufacturing of Ampion, an advanced research and development laboratory as well as a sufficient office space to consolidate all operations of the company in a single facility. The Company continues to enter into contracts for the construction of the facility as well as specialized equipment.

Ampion Supply Agreement

In connection with the manufacturing facility/clean room, Ampio entered into a human serum albumin ingredient and purchase sale agreement with a total commitment of $11,475,000.

Clinical Research Obligations

In connection with upcoming clinical trials, Ampio has a remaining commitment of $1,112,474 on contracts related to the Ampion study drug and $7,079,206 remaining contract commitments related to the Optina study drug. Ampio has subsequently entered into agreement with clinical research organizations for upcoming trials which are described in Note 17 Subsequent Events.

Sponsored Research Agreement with Related Party

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

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Leases

On May 20, 2011 Ampio entered into a non-cancellable operating lease for office space effective June 1, 2011, which expires July 2014. Commitments include the annual operating expense increase for 2014. 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 an initial base rent of $23,376 per month, with the total base rent over the term of the lease of approximately $3.3 million. Rent expense for the respective periods follows:

	Years Ended December 31,		
	2013	2012	2011
Rent expense	$ 117,670	$ 100,495	$ 92,989

Employment Agreements

As of December 31, 2013, Ampio has employment agreements with four of its executive officers. Under the employment agreements, the executive officers are collectively entitled to receive $955,000 in annual salaries, plus a 50% discretionary performance bonus related to milestone achievements. The employment agreements expired July 31, 2013 with respect to our chief scientific officer and chief regulatory affairs officer, and expire in January 2015 with respect to our chief executive officer and December 2015 with respect to our chief operating officer. The portion of the salary due to our chief scientific officer that is included in the Sponsored Research Agreement with Trauma Research LLC (TRLLC) is excluded from the officers employment agreements commitment. On July 15, 2013, Ampio extended the Employment Agreements of Dr. David Bar-Or, Chief Scientific Officer, and Dr. Vaughan Clift, Chief Regulatory Affairs Officer, for one additional year, expiring July 31, 2014. In connection with this Amendment, Dr. Bar-Or and Dr. Clift were awarded 300,000 and 170,000 options, respectively, for Ampio common stock at an exercise price of $6.15 with 50% vesting upon grant and 50% after one year. Vyrix also has an employment agreement with its chief executive officer. The agreement is for a term of 36 months beginning on November 18, 2013. The chief executive officer is entitled to receive $210,000 in annual salary, plus a 50% discretionary performance bonus and 500,000 Vyrix stock options with 25% vesting upon grant and 25% annual vesting over three years.

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

Note 12 Common Stock

Capital Stock

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

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. The registration statement also registered for possible resale up to one million shares of common stock to be sold by directors and management (as selling shareholders) in future public offerings. Of the $80 million in Ampio common stock registered under the shelf, $28.4 remains under such registration statement after the sales referenced below.

On December 26, 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 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 on January 22, 2014 by the Securities and Exchange Commission.

Registered Direct Placement

On September 30, 2013, Ampio closed on the sale of 4,600,319 shares of common stock at $5.50 per share, for a total of $25,301,754 of gross proceeds and $25,003,986 net proceeds after offering costs. The sale of the common stock was made pursuant to the Form S-3 Shelf Registration.

Underwritten Public Offering

On July 18, 2012 Ampio completed an underwritten public offering under the Form S-3 Shelf Registration 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.

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Registered Direct Offering

On December 27, 2011, Ampio completed a registered direct offering of its common stock under the Form S-3 Shelf Registration. A total of 2,220,255 shares were issued at $4.25 per share resulting in gross proceeds of $9,436,084 of which Ampio received net proceeds of $8,454,001, after placement agent commissions, non-accountable expenses and other offering costs.

Private Placement Offering

On March 31, April 8 and April 18, 2011, Ampio closed private placements of its common stock. 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, which amount has been included in total offering costs in the statement of change in stockholders equity (deficit).

Capital Transactions

Life Sciences issued 1,080,000 shares of Common Stock to its founder in December 2008 at a value of $.001 per share.

Life Sciences issued 3,500,000 shares of Common Stock to BioSciences in April 2009 in connection with an Asset Purchase Agreement. Under the terms of the agreement, Life Sciences acquired office and lab equipment, cell lines and intellectual property including patents and license agreements, while the Ampio valued those assets in excess of $300,000, for financial reporting purposes the assets and liabilities have been recorded at predecessor cost. In conjunction with the asset purchase, Life Sciences recorded a distribution of $252,015 to reflect liabilities assumed. Included in the assumed liabilities was a $200,000 note payable to Life Sciences founder. The note payable was converted into 163,934 shares of Series A preferred stock at a value of $1.22 per share.

Life Sciences issued 7,350,000 shares of restricted common stock to its directors, officers and employees in exchange for $7,350 in cash in April 2009. The restricted common stock is subject to vesting as set forth below under *Restricted Common Stock*.

Life Sciences issued 913,930 shares of Series A Preferred Stock in April and May 2009 in exchange for $1,115,020 in cash.

Life Sciences received $170,003 in December 2009 in connection with a private placement for the purchase of 97,144 shares of common stock. Life Sciences had not issued the shares as of December 31, 2009 and therefore recorded the proceeds as a liability. The shares were issued in 2010.

As set forth in Note 1 Business, Basis of Presentation and Merger, Life Sciences and Chay completed a reverse merger in March 2010, and Chay changed its name to Ampio Pharmaceuticals, Inc. In conjunction with the Merger, Life Sciences Series A Preferred Stock was automatically converted into common stock. As result of the Merger, related stock transactions and the conversion of Series A Preferred Stock, Ampio common stock outstanding increased by 3,068,958 shares.

Ampio (or its predecessors) issued 1,078,078 shares of common stock in March and April, 2010 for $1,536,630 in cash (net of $350,000 in offering costs), of which $7,000 had been received in March 2010 and $170,003 had been received in 2009 and was initially classified as common stock subscribed.

Ampio issued 1,030,000 shares of common stock in January, February and March 2010 in exchange for services. The shares were recorded at their fair value, $1.75 per share or $1,802,500. Ampio recorded $1,799,219 as expense in 2010. The remaining $3,281 was reflected as a deferred charge in stockholders equity at December 31, 2010, and was recognized into expense as the services are provided in the first quarter of 2011.

As further discussed in Note 4 Acquisition of DMI BioSciences, 8,667,905 shares of Ampio common stock were issued on March 23, 2011. At that time, the 3,500,000 shares issued in April 2009 to BioSciences in connection with the asset purchase were surrendered back to Ampio for cancellation.

Restricted Common Stock

An aggregate of 7,350,000 shares of previously restricted stock owned by Ampio s employees are no longer restricted. One-third of the restricted shares vested on the grant date of April 17, 2009 and one-third vested on April 17, 2011. On April 23, 2011 the Ampio Board of Directors approved the acceleration of vesting of the remaining one-third, pursuant to the achievement of defined milestones.

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Common Stock Issued for Services

Ampio issued 4,209, 9,072 and 13,635 shares valued at $30,000, $40,000 and $30,000 for each non-employee director as part of their director fees in 2013, 2012 and 2011 respectively. In addition, Ampio issued 15,000 shares with a value of $60,150 on October 1, 2012 and 15,000 shares with a value of $58,050 on January 2, 2013 for services rendered by a consultant.

Note 13 Equity Instruments

Options

At a special meeting on March 1, 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. At annual meetings of shareholders, including the latest meeting on December 14, 2013, shareholders have approved a total of 11,700,000 shares reserved for issuance under the 2010 plan.

During 2011, 840,000 options were issued at a weighted average exercise price of $3.95, with 638,333 vesting immediately. The remaining 201,667 options will vest annually over a period of from one to four years. In addition, Ampio issued options to purchase 435,717 shares to former BioSciences option holders. These were issued at a weighted average exercise price of $1.54. 175,873 of these options had been exercised at December 31, 2012. The remaining options have an average life of 1.05 years.

During 2012 an additional 2,095,000 options were granted at a weighted average exercise price of $2.97 to officers, directors, employees and consultants. 1,430,000 of these options vest monthly over three years, 75,000 shares vested immediately, 450,000 vest over a three year period, 90,000 over a two year period and 50,000 over one year.

During 2013 an additional 1,120,000 options were granted at a weighted average exercise price of $6.54 to officers, directors, employees and consultants. 230,000 of these options vest monthly over three years, 130,000 shares vested immediately, 90,000 vest over a three year period, 670,000 over one year.

Stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Fair Value
Outstanding December 31, 2010	2,930,000	$ 1.13	9.63	$ 1,875,535
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	$ 3,443,616
Granted	2,095,000	$ 2.97		

Exercised	(715,476)	$ (1.07)		
Forfeited	(256,250)	$ (4.04)		
Expired	(33,333)	$ (5.96)		
Outstanding December 31, 2012	4,922,815	$ 2.25	8.36	$ 7,132,347
Granted	1,120,000	$ 6.54		
Exercised	(333,176)	$ 3.23		
Forfeited/Cancelled	(574,581)	$ 1.89		
Outstanding December 31, 2013	5,135,058	$ 3.54	8.74	$ 10,273,070
Exercisable at December 31, 2013	4,481,412	$ 2.44	6.89	$ 5,100,352
Available for grant at December 31, 2013	5,313,689			

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	Year Ended December 31, 2013	2012	2011	December 18, 2008 (Inception) through December 31, 2013
Average fair value per share granted	$ 3.32	$ 2.17	$ 2.26	$ 1.70

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. Accordingly, Ampio has computed the fair value of all options granted during the respective years, using the following assumptions:

	Years Ended December 31, 2013	2012	2011
Expected volatility	70% - 89%	72% -93%	62% - 73%
Risk free interest rate	0.40% - 2.12%	0.18% - 1.15%	0.70% - 2.24%
Expected term (years)	3.0 - 6.5	3.0 - 6.5	5.0 - 6.5
Dividend yield	0.0%	0.0%	0.0%

Pursuant to the Luoxis 2013 Stock Option Plan (the 2013 Plan), 5,000,000 shares of its common stock were reserved for issuance under the 2013 Plan. On June 15, 2013, Luoxis granted 1,800,000 shares to officers, employees and consultants. The shares have an exercise price of $1.00 which is the same as the private placement offering price. Twenty-five percent of the shares vested immediately and the remainder vest annually on the grant date at a rate of 25% over the next three years. The fair value of these options totaling $1,272,366 were also calculated using the Black-Scholes option pricing model utilizing the same methodology as described above for Ampio including the following assumptions:

Expected volatility	85.73% - 86.35%
Risk free interest rate	1.04% - 1.53%
Expected term (years)	5.0 - 6.5
Dividend yield	0%

Luoxis stock option activity is as follows:

	Number of Options	Exercise Price	Remaining Contractual Life	Aggregate Fair Value
Granted June 15, 2013	1,800,000	$ 1.00		
Outstanding December 31, 2013	1,800,000	$ 1.00	9.72	$ 1,272,366
Exercisable at December 31, 2013	450,000	$ 1.00	9.72	$ 303,492

Available for grant at December 31, 2013	3,200,000

Vyrix has also adopted a 2013 Stock Option Plan (the Vyrix 2013 Plan) which reserved 5,000,000 shares of its common stock for issuance to officers, employees and consultants. As of December 31, 2013, 500,000 shares had been granted to Vyrix s chief executive officer. Twenty-five percent or 125,000 shares vested immediately and the remainder vest annually over three years. The exercise price will be established at the time of a Vyrix capital raise. For valuation purposes, an estimate of $1.75 was utilized for

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calculation using the Black-Scholes option pricing model using the same methodology as described above for Ampio including the following assumptions:

Expected volatility	66.40% - 76.42%
Risk free interest rate	1.33% - 2.02%
Expected term (years)	5.0 - 6.5
Dividend yield	0%

The total aggregate fair value of these options was estimated at $557,134.

Stock-based compensation related to common stock issued to third party vendors in exchange for services was included in general and administrative expenses in the statement of operations as set forth in the table below. The common stock was recorded at its fair value at the dates Ampio became obligated to issue the shares, and is recognized as expense as the services are provided. 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 years ended 2013, 2012 and 2011:

	Years Ended December 31,			December 18, 2008 (Inception) through
	2013	2012	2011	December 31, 2013
Research and development expenses				
Stock options				
Ampio	$ 1,691,578	$ 395,644	$ 315,524	$ 2,783,839
Luoxis	$ 305,662	$	$	$ 305,662
General and administrative expenses				
Common stock issued for services	88,050	100,150	33,281	1,990,700
Stock options				
Ampio	1,138,208	1,126,730	1,638,261	4,849,189
Luoxis	172,765			172,765
Vyrix	140,070			140,070
	$ 3,536,333	$ 1,622,524	$ 1,987,066	$ 10,242,225
Unrecognized expense at December 31, 2013				
Ampio	$ 3,861,775			
Luoxis	$ 793,938			
Vyrix	$ 417,064			
Weighted average remaining years to vest				
Ampio	1.57			
Luoxis	2.45			

Vyrix	2.88

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Warrants

Ampio issued warrants in 2013, 2012 and 2011 in conjunction with its 2012 Underwritten Public Offering and 2011 Private Placement and Related Party Debentures and its Redeemable Debentures 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	$ 3.13	
Outstanding December 31, 2011	677,008	$ 2.78	3.69
Warrants exercised - Debenture holders	(7,041)	$ (1.75)	
Warrants exercised - Private Placement	(54,058)	$ (3.13)	
Warrants issued in connection with Underwritten Offering	138,462	$ 4.06	
Outstanding December 31, 2012	754,371	$ 3.00	3.01
Warrants exercised - Debenture holders	(160,679)	$ (1.75)	
Warrants exercised - Private/Registered Direct Placements	(4,504)	$ (3.13)	
Warrants exercised - Private/Registered Direct Placements	(61,498)	$ (4.06)	
Outstanding December 31, 2013	527,690	$ 2.93	2.44

The exercise price of the warrants associated with Related Party Debentures and the Redeemable Debentures was fixed at $1.75 per share. The warrants expired on December 31, 2013 but were exercised prior to that date. The warrants issued to debenture holders in 2011 were associated with the $382,000 of 2011 Debentures and in conjunction with accrued interest.

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:

Exercise price	$ 4.0625
Expected volatility	72%
Equivalent term (years)	5
Risk-free interest rate	0.25%
Dividend Yield	0%

Warrants issued in connection with the 2011 Private Placements are at $3.125 per share and expire March 31, 2016. The 258,343 and 250,945 warrants issued in connection with the 2011 Private Placement in April and March 2011 were valued at $466,007 and $422,657, respectively, 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. Since the expected life of five years was significantly longer than Ampio s stock trading history, 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 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:

Exercise price	$ 3.125
Expected volatility	73%
Equivalent term (years)	5
Risk-free interest rate	2.2%
Dividend Yield	0%

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In connection with the final closing of the Luoxis private placement in May 2013, Luoxis issued warrants to purchase 465,250 shares of common stock at a price of $1.00 exercisable one year after the final closing. The weighted average remaining contractual life is 5 years. 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. The Company 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 $313,064 using the Black-Scholes valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions in valuing the Luoxis warrants were as follows:

Expected volatility	87%
Risk free interest rate	0.52%
Expected term (years)	5
Dividend yield	0%

Note 14 Related Party Transactions

Life Sciences has a sponsored research agreement with Trauma Research LLC, or TRLLC, an entity owned by Dr. Bar-Or. Under the terms of the research agreement, Life Sciences is to provide personnel and equipment with an equivalent value of $263,750 per year and to make monthly equipment lease payments of $7,236 on behalf of TRLLC. Lease commitments expired as of January 2011. In exchange, TRLLC will assign any intellectual property rights it develops on our behalf under the research agreement. The research agreement expires on August 31, 2014 and may be terminated by either party on six months notice or immediately if either party determines that the other is not fulfilling its obligations under the agreement.

Ampio had 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 paid the costs associated with maintaining intellectual property subject to the license agreements. As further noted in Note 3 Formation of Subsidiaries, the intellectual property associated with the license agreements were assigned to Luoxis and the license agreements are no longer applicable to Ampio.

In June 2013, Luoxis entered into an agreement with TRLLC, a related party controlled by Dr. David Bar-Or, a director and officer of Ampio. The agreement provides for Luoxis to pay $5,834 per month to TRLLC in consideration for services related to research and development of the Luoxis Oxidation Reduction Potential platform. In September 2013, Luoxis entered into an addendum to the agreement which provides for Luoxis to pay an additional $2,000 per month. These agreements are cancellable upon thirty day notice.

Immediately prior to the 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 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 three months ended

March 31, 2012 an additional repayment of $36,883 was received.

Note 15 Litigation

On August 30, 2013, Ampio was notified of a civil complaint filed against the Company and certain of its directors and executive officers as defendants. The Complaint alleges that the defendants breached a contract with the plaintiffs for consulting services the plaintiffs purportedly provided during two time periods: in November and December 2009 in connection with a proposed reverse merger transaction, and between 2010 and 2012. The reverse merger transaction identified by the plaintiffs, and which is alleged to be the basis for contract claims, was not consummated by the Company. The plaintiffs seek an unspecified amount of compensatory damages and other relief, including 1,130,000 shares of the Company s common stock, and also assert claims for promissory estoppel, unjust enrichment and fraudulent inducement and concealment. The Company believes these claims are without merit and intends to defend this lawsuit vigorously. We believe the likelihood of a loss contingency related to this matter is remote and, therefore, no provision for a loss contingency is required.

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Note 16 Selected Quarterly Data (unaudited)

Quarterly results were as follows:

	Quarters Ended			
	March 31,	June 30,	September 30,	December 31,
2013				
License Revenue	$ 12,500	$ 12,500	$ 12,500	$ 12,500
Operating expenses				
Research and development	$ 2,786,822	$ 5,249,196	$ 4,803,856	$ 5,448,997
General and administrative	1,311,800	1,220,346	1,152,078	2,100,778
Total operating expenses	4,098,622	6,469,542	5,955,934	7,549,775
Net loss	$ (4,208,323)	$ (6,593,259)	$ (6,193,930)	$ (7,532,914)
Net loss applicable to non-controlling interests	$ 29,695	$ 175,638	$ 121,851	$ 192,684
Net loss applicable to Ampio	$ (4,178,628)	$ (6,417,621)	$ (6,072,079)	$ (7,340,230)
Basic and diluted Ampio net loss per common share	$ (0.11)	$ (0.17)	$ (0.16)	$ (0.18)

	Quarters Ended			
	March 31,	June 30,	September 30,	December 31,
2012				
License Revenue	$ 12,500	$ 12,500	$ 12,500	$ 12,500
Operating expenses				
Research and development	$ 1,472,707	$ 1,551,629	$ 2,135,385	$ 2,334,103
General and administrative	1,536,201	727,164	677,928	1,435,639
Total operating expenses	3,008,908	2,278,793	2,813,313	3,769,742
Net loss	$ (2,835,876)	$ (2,495,885)	$ (2,583,968)	$ (3,677,316)
Net loss applicable to non-controlling interests	$	$	$	$
Net loss applicable to Ampio	$ (2,835,876)	$ (2,495,885)	$ (2,583,968)	$ (3,677,316)
Basic and diluted Ampio net loss per common share	$ (0.09)	$ (0.08)	$ (0.07)	$ (0.10)

Note 17 Subsequent Events

In January 2014, Ampio entered into an agreement with a clinical research organization to conduct its 500 patent Phase III pivotal trial of Ampion for the treatment of osteoarthritis of the knee. The contract fees total $4.7 million and extend over approximately ten months.

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