PLURISTEM THERAPEUTICS INC
Form 424B5
April 05, 2019

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-218916

PROSPECTUS SUPPLEMENT
(to the Prospectus dated June 30, 2017)

1,428,571 Shares of Common Stock

We are offering 1,428,571 shares of our common stock, par value $0.00001 per share at the offering price of $0.70 per share. Our common stock is listed on The Nasdaq Capital Market, or Nasdaq, under the symbol "PSTI" and on the Tel Aviv Stock Exchange, or TASE, under the symbol "PLTR." On April 2, 2019, the last reported sale price for our common stock on Nasdaq was $0.94 per share.

We have retained Ladenburg Thalmann & Co. Inc. to act as our placement agent in connection with this offering. The placement agent has agreed to use its commercially reasonable best efforts to place the securities offered by this prospectus supplement. The placement agent is not purchasing or selling any shares pursuant to this prospectus supplement or the accompanying prospectus, nor are we requiring any minimum purchase or sale of any specific number of shares. We have agreed to pay the placement agent the fee set forth in the table below.

	Per Share	Total
Public Offering Price	$0.70	$1,000,000
Placement Agent Fees	$0.042	$60,000
Proceeds, before expenses, to us	$0.658	$940,000

Concurrently with this offering of common stock and pursuant to a separate prospectus supplement, we agreed to sell 27,142,858 shares of common stock and warrants to purchase 27,142,858 shares of common stock at an exercise price of $0.70 per share in an underwritten public offering at the same price per share as the offering price in this offering, for aggregate gross proceeds of approximately $19 million, prior to deducting the underwriting discounts and commissions and the estimated offering expenses payable by us, which we refer to herein as our concurrent underwritten public offering. In addition, we have granted the underwriters in the concurrent underwritten public offering a 30-day option to purchase up to an additional 1,428,571 shares of common stock and/or warrants to purchase up to 1,428,571 shares of common stock at the public offering price, less underwriting discounts and commissions.

Investing in our securities involves significant risks. See "Risk Factors" beginning on page S-5 of this prospectus supplement, and under similar headings in other documents filed after the date hereof and incorporated by reference into this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Delivery of the shares is expected to be made on or about April 8, 2019.

Sole Placement Agent

Ladenburg Thalmann

Prospectus Supplement dated April 4, 2019

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

PROSPECTUS

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a "shelf" registration statement on Form S-3 (File No. 333-218916) we filed with the Securities and Exchange Commission, or the SEC, on June 23, 2017, and that was declared effective by the SEC on June 30, 2017. Under this "shelf" registration process, we may, from time to time, sell any combination of the securities described in the accompanying prospectus in one or more offerings up to a total amount of $200,000,000. As of April 4, 2019, prior to the consummation of this offering and the concurrent underwritten public offering, we have sold $72,309,542 of securities under the foregoing "shelf" registration statement.

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information about the shares of our common stock and other securities we may offer from time to time under our "shelf" registration statement, some of which does not apply to the common stock offered by this prospectus supplement.

Generally, when we refer to this prospectus supplement, we are referring to both parts of this document combined together with all documents incorporated by reference. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, you should rely on the information in this prospectus supplement.

You should read this prospectus supplement, the accompanying prospectus, and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus before making an investment decision. You should also read and consider the information in the documents referred to in the sections of this prospectus supplement entitled "Where You Can Find More Information" and "Incorporation of Certain Documents by Reference."

You should rely only on the information contained in or incorporated by reference into this prospectus supplement or contained in or incorporated by reference into the accompanying prospectus to which we have referred you. We have not authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in, or incorporated by reference into, this prospectus supplement and contained in, or incorporated by reference into, the accompanying prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or of any sale of securities.

We are offering to sell, and are seeking offers to buy, the shares only in jurisdictions where such offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the shares in certain states or jurisdictions or to certain persons within such states and jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of the shares and the distribution of this prospectus supplement and the accompanying prospectus outside the United States. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement and the accompanying prospectus by any person in any state or jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

In this prospectus supplement and the accompanying prospectus, unless otherwise indicated, the terms "Pluristem," "we," "us" and "our" mean Pluristem Therapeutics Inc. and its wholly owned Israeli subsidiary, Pluristem Ltd., as required by the context.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference herein or therein that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "intends," "plans," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations th comparable terminology, and similar expressions are intended to identify forward-looking statements. Accordingly, forward-looking statements involve estimates, assumptions and are inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, achievements or industry results, expressed or implied by such forward-looking statements. Such forward-looking statements include, among other statements, statements regarding the following:

- the expected development and potential benefits from our product candidates in treating various medical conditions;
- the clinical trials to be conducted according to our license agreement with CHA Biotech Co. Ltd.;
- our plan to execute our strategy independently, using our own personnel, and through relationships with research and clinical institutions or in collaboration with other companies;
- the prospects of entering into additional license agreements, or other forms of cooperation with other companies and medical institutions;
- our pre-clinical and clinical trials plans, including timing of initiation, enrollment and conclusion of trials;
- achieving regulatory approvals, including under accelerated paths;
- the expected timing of the release of data from our various studies;
- receipt of future funding from the European Commission, the Israel Innovation Authority, the European Union's Horizon 2020 program and grants from other independent third parties;
- our marketing plans, including timing of marketing our product candidates, PLX-PAD and PLX-R18;
- developing capabilities for new clinical indications of placenta expanded (PLX) cells and new products;
- the timing and development of our PLX-Immune product candidate;
- our estimations regarding the size of the global market for our product candidates;
- our expectations regarding our production capacity;
- our expectation to demonstrate a real-world impact and value from our pipeline, technology platform and commercial-scale manufacturing capacity;
- our expectations regarding our short- and long-term capital requirements;
- the proposed joint venture to be established with Sosei Corporate Venture Capital Ltd. for the clinical development and commercialization of Pluristem's PLX-PAD cell therapy product in Japan and the plan to enter into definitive agreements;
- our outlook for the coming months and future periods, including but not limited to our expectations regarding future revenue and expenses; and
- information with respect to any other plans and strategies for our business.

The factors discussed herein, including those risks described under the heading "Risk Factors" herein, in the accompanying prospectus and in the documents we incorporate by reference could cause actual results and developments to be materially different from those expressed in or implied by such statements. In addition, historic results of scientific research, preclinical studies and clinical trials do not guarantee that the conclusions of future research or trials would not suggest different conclusions. Also, historic results referred to this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference may be interpreted differently in light of additional research, clinical and preclinical trials results. Except as required by law we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

PROSPECTUS SUPPLEMENT SUMMARY

This summary is qualified in its entirety by, and should be read together with, the more detailed information and financial statements and related notes thereto appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. Before you decide to invest in our securities, you should read this entire prospectus supplement and the accompanying prospectus carefully, including the sections titled "Risk Factors," and our consolidated financial statements and the related notes and other documents incorporated by reference herein and in the accompanying prospectus.

Our Company

We are a leading developer of placenta-based cell therapy product candidates for the treatment of multiple ischemic, inflammatory and hematologic conditions. Our lead indications are (i) critical limb ischemia, or CLI, (which is a peripheral arterial disease, or PAD), (ii) recovery following surgery for hip fracture (which is an orthopedic disease), and (iii) acute radiation syndrome, or ARS. Each of these indications is a severe unmet medical need.

PLX cells are derived from a class of placental cells that are harvested from donated placenta at the time of full term healthy delivery of a baby. PLX cell products require no tissue matching prior to administration. They are produced using our proprietary three-dimensional expansion technology. Our manufacturing facility complies with the European, Japanese, Israeli and U.S. Food and Drug Administration's, or FDA's, current Good Manufacturing Practice requirements and has been approved by the European and Israeli regulators for production of PLX-PAD for late stage trials and marketing. If we obtain FDA and other regulatory approvals to market PLX cells, we expect to have in-house production capacity to grow clinical-grade PLX cells in commercial quantities.

Our goal is to make significant progress with our clinical pipeline and our anticipated pivotal trials in order to ultimately bring innovative, potent therapies to patients who need new treatment options. We expect to demonstrate a real-world impact and value from our pipeline, technology platform and commercial-scale manufacturing capacity. Our business model for commercialization and revenue generation includes, but is not limited to, direct sale of our products, partnerships, licensing deals, and joint ventures with pharmaceutical companies.

We aim to shorten the time to commercialization of our product candidates by leveraging unique accelerated regulatory pathways that exist in the United States, Europe and Japan to bring innovative products that address life-threatening diseases to the market efficiently. We believe that these accelerated pathways create substantial opportunities for us and for the cell therapy industry as a whole.

We are currently conducting a Phase III multinational clinical trial of our PLX-PAD product candidate for the treatment of CLI, a type of PAD. PAD is caused by fatty deposits in leg arteries that obstruct blood flow. Risk factors include smoking, diabetes, obesity, cardiovascular problems and hypertension. Based on our current patient enrollment progress, we expect to complete the follow up of our Phase III trial in CLI in the first half of 2020 with respect to Europe, and in the first half of 2021 with respect to the United States. We expect to release the clinical data shortly after the conclusion of the follow up.

In addition, we concluded a Phase II multinational clinical trial of our PLX-PAD product candidate for the treatment of intermittent claudication, or IC, which is an early stage PAD with symptoms of leg pain and weakness brought on by exercise, with resolution of the symptoms following rest. The findings of our IC Phase II clinical trial include:

- Patients treated with PLX-PAD at the optimal dosing regimen showed statistically significant improvement (effect size=42.0%, p=0.043) in maximum walking distance at 52 weeks across all sites (U.S., Europe, Israel and South Korea), nationalities, gender and ethnicity as compared to placebo. These patients also experienced no revascularization events at 65 weeks as compared to 12% occurrence in the placebo group.

S - 1

- Patients also experienced a statistically significant relative reduction of 7.77 (mmol/mol) in Hemoglobin A1C, or HbA1c, at 65 weeks compared to placebo (p=0.0155). HbA1c measures the amount of blood sugar (glucose) attached to hemoglobin. A reduction in HbA1c indicates better glucose control in patients and is the most commonly used measurement to evaluate treatment efficacy in diabetics.

We are also currently conducting a Phase III multinational clinical trial of our PLX-PAD product candidate relating to recovery following surgery for hip fracture. Based on our current patient enrollment progress, we expect to complete the follow up of our Phase III trial in recovery following surgery for hip fracture in the second half of 2020. We expect to release the clinical data shortly after the conclusion of the follow ups.

Our second product candidate, PLX-R18, is under development in the United States for ARS via the FDA Animal Rule regulatory pathway, and, based on our assessment, is ready for a pivotal trial, which may also result in approval without the prior performance of human efficacy trials. The National Institutes of Health's National Institute of Allergy and Infectious Diseases has completed a dose selection trial with our PLX-R18 product candidate in the hematologic component of ARS. Assuming we receive a contract from the U.S. government, we expect to initiate an ARS pivotal trial in the second half of 2019.

Corporate Information

We were incorporated as a Nevada corporation in 2001. Pluristem Ltd. is our wholly owned subsidiary in Israel. Our executive offices are located at MATAM Advanced Technology Park, Building No. 5, Haifa, Israel, our telephone number is 011 972 74 7108600 and our website address is www.pluristem.com. This reference to our website is an inactive textual reference only, and is not a hyperlink. The information on our website is not incorporated by reference in this prospectus supplement and should not be considered to be part of this prospectus supplement. You should not consider the contents of our website in making an investment decision with respect to the securities.

THE OFFERING

Common stock offered by us	1,428,571 shares of common stock.
Price per share	$0.70
Concurrent underwritten public offering	Concurrently with this offering, we are offering 27,142,858 shares of common stock and warrants to purchase up to 27,142,858 shares of common stock in a concurrent underwritten public offering, at the same price per share as the offering price in this offering, for aggregate gross proceeds of approximately $19 million, prior to deducting the underwriting discounts and commissions and the estimated offering expenses payable by us. The shares and warrants will be sold in units, with each unit consisting of one share of common stock and a warrant to purchase one share of common stock, with the shares of common stock and warrants immediately separable upon issuance. In addition, we have granted the underwriters an option for a period of 30 days, to purchase up to an additional 1,428,571 shares of our common stock and/or additional warrants to purchase up to 1,428,571 shares of common stock to cover over-allotments, if any, at a price of $0.658 per share of common stock and/or $0.0094 per warrant, less the underwriting discounts and commissions. The concurrent underwritten public offering is being conducted as a separate offering by means of a separate prospectus supplement.
Common stock to be outstanding immediately after this offering and the concurrent underwritten public offering	145,380,873 shares, or 172,523,731 shares if all of the warrants sold in the concurrent underwritten public offering are exercised (or 175,380,874 shares if the underwriters' option in the concurrent underwritten public offering to purchase additional shares and warrants is exercised in full).
Use of proceeds	We intend to use the net proceeds from this offering and the concurrent underwritten public offering for research and product development activities, clinical trial activities, investment in capital equipment and for working capital and other general corporate purposes. See "Use of Proceeds."
Risk factors	An investment in our common stock involves a high degree of risk. See "Risk Factors" beginning on page S-5 of this prospectus supplement and on page 2 of the accompanying prospectus, as well as those risk factors that are incorporated by reference in this prospectus supplement and the accompanying prospectus, for a discussion of factors to consider carefully before deciding to purchase shares of our common stock.
Listing on Nasdaq and TASE	Our common stock is listed on Nasdaq under the symbol "PSTI" and on TASE under the symbol "PLTR."

Unless otherwise indicated, all information in this prospectus supplement is based on 116,809,444 shares of common stock outstanding as of December 31, 2018 and excludes as of such date:

- 985,800 shares of common stock issuable upon the exercise of outstanding stock options as of December 31, 2018 at a weighted-average exercise price of $0.00001 per share;

- 3,833,998 shares of common stock reserved for future issuances under our equity compensation plan;

- 11,700,278 shares of common stock issuable upon the exercise of outstanding warrants as of December 31, 2018 at a weighted-average exercise price of $1.91 per share;

- 9,922,569 shares of common stock issuable upon the vesting of outstanding restricted stock and restricted stock units as of December 31, 2018;

- the shares of common stock being issued in the concurrent underwritten public offering; and

- the shares of common stock issuable upon the exercise of warrants being issued in the concurrent underwritten public offering.

Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the outstanding options and warrants listed above and no exercise by the underwriters' of the option to purchase additional shares and/or warrants in the concurrent underwritten public offering.

RISK FACTORS

Investing in our securities involves significant risks. You should carefully consider the risk factors below, in the accompanying prospectus and in our filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, as well as all of the information contained in this prospectus supplement, in the accompanying prospectus and the other documents incorporated by reference herein or therein, before you decide to invest in our securities. Our business, prospects, financial condition and results of operations may be materially and adversely affected as a result of any of such risks. The value of our securities could decline as a result of any of these risks. You could lose all or part of your investment in our securities. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

Risks Related to this Offering and the Concurrent Underwritten Public Offering

If you purchase our shares in this offering you will experience immediate and substantial dilution in your investment. You will experience further dilution if we issue additional securities in future financing transactions.

Since the public offering price per share of our common stock being offered in this offering and the concurrent underwritten public offering is higher than the net tangible book value per share of our common stock, you will suffer substantial dilution in this offering. As a result, if you purchase shares in this offering, you will incur an immediate and substantial dilution of $0.47 per share, based upon the public offering price of $0.70 per share and our net tangible book value as of December 31, 2018, after giving effect to this offering and the shares sold in the concurrent underwritten public offering. In addition, we have a significant number of stock options and warrants outstanding and additional warrants will be outstanding if the concurrent underwritten public offering is completed. To the extent that outstanding stock options or warrants are exercised, investors purchasing our common stock in this offering may experience further dilution.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders or result in downward pressure on the price of our common stock. See the section titled “Dilution” on page S-9 in this prospectus supplement for a more detailed discussion of the dilution you will incur if you purchase shares of common stock in this offering.

Our management will have broad discretion over the use of the proceeds we receive from this offering and the concurrent underwritten public offering and may invest or spend the proceeds of this offering in ways with which you may not agree or in ways which may not yield a significant return, if any.

We intend to use the net proceeds from this offering and the concurrent underwritten public offering for research and product development activities, clinical trial activities, investment in capital equipment and for working capital and other general corporate purposes. Our management will have significant flexibility in applying the net proceeds of this offering and the concurrent underwritten public offering. The actual amounts and timing of expenditures will vary significantly depending on a number of factors, including the amount of cash used in our operations and our research and development efforts. We might apply these proceeds in ways with which you do not agree, or in ways that do not yield a favorable return. If our management applies these proceeds in a manner that does not yield a significant return, if any, on our investment of these net proceeds, it could compromise our ability to pursue our growth strategy and adversely affect the market price of our common stock.

Future sales of our shares may cause the prevailing market price of our shares to decrease.

We have issued a substantial number of shares issued or issuable upon exercise of warrants and options to purchase our shares that are eligible for, or may become eligible for, unrestricted resale, and additional warrants will be issued if this offering is completed. Any sales or registration of such shares in the public market or otherwise could reduce the prevailing market price for our shares, as well as make future sales of equity securities by us less attractive or even not feasible.

If we fail to continue to meet all applicable Nasdaq requirements, Nasdaq may delist our common stock, which could have an adverse impact on the liquidity and market price of our common stock.

Our common stock is currently listed on Nasdaq, which has qualitative and quantitative listing criteria. If we are unable to meet any of the Nasdaq listing requirements in the future, including, for example, if the closing bid price for our common stock falls below $1.00 per share for 30 consecutive trading days, Nasdaq could determine to delist our common stock, which could adversely affect the market liquidity of our common stock and the market price of our common stock could decrease.

USE OF PROCEEDS

We estimate that our net proceeds from this offering and the concurrent underwritten public offering will be approximately $18,532,000 at a public offering price of $0.70 per share (or $19,472,000 if the underwriters' option to purchase additional shares and/or warrants in the concurrent underwritten public offering is exercised in full) after deducting the underwriting discounts and commissions and the estimated offering expenses that are payable by us. This amount does not include the proceeds which we may receive in connection with the exercise of the warrants issued in the concurrent underwritten public offering.

We intend to use the net proceeds from this offering and the concurrent underwritten public offering to fund our research and product development activities, clinical trial activities, investment in capital equipment and for working capital and other general corporate purposes.

The expected use of the net proceeds from this offering and the concurrent underwritten public offering represents our intentions based upon our current plans and business conditions, which could change in the future as our plans and business conditions evolve. The amounts and timing of our actual expenditures depend on numerous factors, including the progress of development efforts, the ongoing status of and results from our ongoing clinical trials and other studies and any unforeseen cash needs. As a result, our management will have broad discretion in applying the net proceeds from this offering and the concurrent underwritten public offering. Pending the application of the net proceeds, we intend to invest the net proceeds in bank deposits or investment-grade, interest-bearing securities subject to any investment policies our investment committee may determine from time to time.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We intend to retain any future earnings to finance the growth and development of our business and do not anticipate paying any cash dividends in the foreseeable future. Any dividends paid will be solely at the discretion of our board of directors.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2018:

- on an actual basis; and
- on an as adjusted basis giving effect to (i) the issuance and sale of 1,428,571 the shares in this offering and (ii) 27,142,858 units in the concurrent underwritten public offering at a public offering price of $0.70 per unit (assuming no separate consideration was paid for the warrants issued in the concurrent underwritten public offering), after deducting the estimated underwriting commission and discounts and other estimated offering expenses payable by us.

You should read this table together with the information contained in this prospectus supplement and the accompanying prospectus and the information incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended December 31, 2018 and our Annual Report on Form 10-K for the year ended June 30, 2018, including the historical financial statements and related notes included in each of those reports.

	As of December 31, 2018	
	(Actual)	(As Adjusted)
	U.S. dollars in thousands (unaudited)	
Stockholders' equity:		
Common stock, par value $0.00001 per share – authorized 200,000,000 shares; issued and outstanding 116,809,444 shares (as of December 31, 2018); 145,380,873 shares issued and outstanding on an as adjusted basis;	$1	$1
Preferred stock, par value $0.00001 per share – authorized 10,000,000 shares, none issued	—	$—
Additional paid-in capital (through December 31, 2018)	248,359	266,891
Accumulated deficit (through December 31, 2018)	(233,166)	(233,166
Total stockholders' equity	$15,194	$33,726

The above discussion and table are based on 116,809,444 shares of common stock outstanding as of December 31, 2018 and excludes the following:

- 985,800 shares of common stock issuable upon the exercise of outstanding stock options as of December 31, 2018 at a weighted-average exercise price of $0.000001 per share;
- 3,833,998 shares of common stock reserved for future issuances under our equity compensation plan;
- 11,700,278 shares of common stock issuable upon the exercise of outstanding warrants as of December 31, 2018 at a weighted-average exercise price of $1.91 per share;
- 9,922,569 shares of common stock issuable upon the vesting of outstanding restricted stock and restricted stock units as of December 31, 2018;
- the shares of common stock being issued in the concurrent underwritten public offering; and
- the shares of common stock issuable upon the exercise of warrants being issued in the concurrent underwritten public offering.

S - 8

DILUTION

Purchasers of common stock in this offering will incur immediate and substantial dilution in the net tangible book value per share of common stock. Our historical net tangible book value as of December 31, 2018 was approximately $15.2 million, or approximately $0.13 per share. Net tangible book value per share is equal to total tangible assets minus the sum of total tangible liabilities divided by the total number of shares outstanding.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers in this offering and the net tangible book value per share of our common stock immediately after this offering and the concurrent underwritten public offering. After giving effect to the sale of 1,428,571 shares of common stock in this offering at a public offering price of $0.70 per share, and the sale of 27,142,858 shares of common stock in the concurrent underwritten public offering, and after deducting the underwriting discounts and commissions and the estimated offering expenses payable by us, our as adjusted net tangible book value as of December 31, 2018, would have been approximately $0.23 per share of common stock. This represents an immediate increase in net tangible book value of $0.10 per share of common stock to our existing stockholders and an immediate dilution in net tangible book value of $0.47 per share of common stock to investors participating in this offering and the concurrent underwritten public offering. The following table illustrates this per share dilution:

Public offering price per share		$0.70
Historical net tangible book value per share as of December 31, 2018	$0.13	
Increase in net tangible book value per share attributable to this offering and the concurrent underwritten public offering	$0.10	
As adjusted net tangible book value per share after this offering and the concurrent underwritten public offering		$0.23
Dilution per share to new investors in this offering		$0.47

The table above assumes no exercise of the warrants being issued in the concurrent underwritten public offering or pursuant to the underwriters' option to purchase additional shares and/or warrants in the concurrent underwritten public offering.

The discussions and tables above are based on 116,809,444 shares outstanding as of December 31, 2018 and exclude as of that date:

- 985,800 shares of common stock issuable upon the exercise of outstanding stock options as of December 31, 2018 at a weighted-average exercise price of $0.000001 per share;
- 3,833,998 shares of common stock reserved for future issuances under our equity compensation plan;
- 11,700,278 shares of common stock issuable upon the exercise of outstanding warrants as of December 31, 2018 at a weighted-average exercise price of $1.91 per share; and
- 9,922,569 shares of common stock issuable upon the vesting of outstanding restricted stock and restricted stock units as of December 31, 2018.

1,114,106	1,115,020

Common stock subscribed in November and December 2009

170,003	170,003

Net loss								
						(1,511,828)		(1,511,828)
Balance - December 31, 2009								
1,077,864	1,078	11,930,000	11,930	170,003	1,313,942		(1,764,923)	(267,970)
Conversion of equity in reverse merger acquisition (unaudited)								
(1,077,864)	(1,078)	3,068,958	(10,430)		11,691			183
Common stock subscribed in March 2010 (unaudited)								
		7,000			7,000			
Issuance of common stock in exchange for cash in March and June								
2010, net of offering costs of $350,000 (unaudited)								
		1,078,078	108	(177,003)	1,536,522			1,359,627
Issuance of common stock for services (unaudited)								
		1,030,000	103		1,802,397	(788,958)		1,013,542
Loans to shareholders (unaudited)								
						(150,183)		(150,183)
Net loss (unaudited)								
						(2,628,162)		(2,628,162)
Balance - June 30, 2010 (unaudited)								
$	17,107,036	$1,711	$		$4,664,552	$(788,958)	$(150,183)	$(4,393,085) $(665,963)

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

Table of Contents

AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	December 18, 2008 (inception) through June 30, 2010
Cash flows from operating activities:			
Net loss	$ (2,628,162)	$ (407,407)	$ (4,139,990)
Common stock issued for services	1,013,542		1,013,542
Adjustments to reconcile net loss to cash used in operating activities:			
(Increase) in prepaid expenses	(42,487)	(10,002)	(49,523)
(Increase) decrease in related party receivable	23	(8,445)	(7,238)
Increase in accounts payable	277,789	(11,343)	357,234
Increase in accrued salaries	122,962		196,353
Increase in accrued interest payable	6,181		7,595
Net cash used in operating activities	(1,250,152)	(437,197)	(2,622,027)
Cash flow used in investing activities			
Purchase of fixed assets	(2,423)		(2,423)
Net cash used in investing activities	(2,423)		(2,423)
Cash used in financing activities:			
Proceeds from related party notes payable	200,000		400,000
Proceeds from sale of common stock	1,359,627	7,125	1,366,977
Proceeds from common stock subscribed	7,000		177,003
Proceeds from sales of series A preferred stock		1,115,020	1,115,020
Advances made to shareholders	(150,183)		(150,183)
Payment of liabilities assumed in asset purchase		(48,515)	(48,515)
Transfer of funds into escrow	(125,000)		(125,000)
Release of funds from escrow	20,000		20,000
Increase in cash from acquisition	183		183
Net cash provided by financing activities	1,311,627	1,073,630	2,755,485
Net change in cash and cash equivalents	59,052	636,433	131,035
Cash and cash equivalents at beginning of period	71,983		
Cash and cash equivalents at end of period	$ 131,035	$ 636,433	$ 131,035
Supplementary cash flow information:			
Interest paid	$	$	$
Income taxes paid	$	$	$
Non cash transactions:			
Note payable assumed in asset purchase, recorded as a distribution	$	$ 200,000	$ 200,000
Accounts payable assumed in asset purchase, recorded as a distribution	$	$ 48,515	$ 48,515
Conversion of notes payable to Series A preferred stock	$	$ 200,000	$ 200,000

Common stock issued for common stock subscriptions received	$ 177,003	$	$ 177,003
Deferred charge recorded for common stock issued in exchange for services	$ 1,802,500	$	$ 1,802,500

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

Table of Contents

AMPIO PHARMACEUTICALS, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Consolidated Financial Statements

(unaudited)

Note 1 Basis of Presentation and Merger

These financial statements represent the consolidated financial statements of Ampio Pharmacueticals, Inc. (Ampio), formerly known as Chay Enterprises, Inc. (Chay), and its wholly owned subsidiaries, DMI Life Sciences, Inc. (DMI) and DMI Acquisition Corp.

On March 2, 2010, DMI 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 DMI, which resulted in the stockholders of DMI 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 Foonote 8 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, DMI became a wholly owned subsidiary of Chay. For accounting purposes, the merger was treated as a reverse acquisition with DMI as the acquirer and Chay as the acquired party. As a result, the business and financial information included in the report is the business and financial information of DMI. 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.

The preparation of our consolidated financial statements and related disclosures in conformity with generally accepted accounting principles in the United States (GAAP) requires us to make estimates and judgments that affect the amounts reported in our financial statements and accompanying notes. The statements reflect all normal recurring adjustments, which, in the opinion of the Ampio s management, are necessary for the fair presentation of financial position, results of operations and cash flows for the periods presented.

The accompanying financial statements should be read in conjunction with DMI Life Sciences, Inc. s consolidated financial statements for the years ended December 31, 2009 and 2008 filed with Ampio s Form 8-K dated March 2, 2010, which includes all disclosures required by GAAP. The results of operations for the periods ended June 30, 2010 and 2009 are not necessarily indicative of expected operating results for the full year.

Note 2 Restricted Cash

Restricted cash of $105,000 represents cash placed in escrow pursuant to the Put Agreement described in Footnote 5 Commitments and Contingencies.

Note 3 Related Party Notes Payable

As of June 30, 2010, Ampio had $100,000 in notes payable to DMI s founder and $300,000 payable to DMI BioSciences, Inc., a stockholder. The related party notes payable are unsecured, bear interest at 6% and mature on September 2, 2010. The Company accrued interest on these notes of $3,222 and $0 in the second quarters of 2010 and 2009 and $6,181 and $0 in the six months ended June 30, 2010 and 2009, respectively.

Note 4 Income Taxes

As of June 30, 2010, Ampio provided a full valuation allowance against the deferred tax asset based on the weight of available evidence, both positive and negative, including the Ampio s operating loss, which indicated that it is more likely than not that such benefits will not be realized.

Note 5 Commitments and Contingencies

As condition of the Merger, Ampio and certain of its stockholders (the Guarantors) and the Chay Control Shareholders entered into a Securities Put and Guarantee Agreement, or the Put Agreement. The Put Agreement provides that if Ampio is not successful in obtaining a minimum of $5.0 million in financing, within 150 days after the closing of the Merger, the Chay Control Shareholders will have the right to put back to Ampio all of the Chay common stock then owned by the Chay Control Shareholders for a put price of $250,000, subject to adjustment. Under the Put Agreement, the Guarantors agreed to jointly guarantee the payment of the put price by Ampio if the put right becomes exercisable in accordance with its terms. In addition, Ampio placed into escrow a cash deposit of $125,000 that will be paid to the Chay Control Shareholders in the event the put right becomes exercisable by its terms. If paid to the Chay Control Shareholders in accordance with the escrow agreement, such payment will reduce the amount the Guarantors would be required to pay on exercise of the put right by the Chay Control Shareholders. The Chay Control Shareholders released to Ampio $20,000 of the funds in escrow in June 2010 and $75,000 in July 2010. The Chay Control Shareholders have not exercised their put right.

Table of Contents

Note 6 Common Stock

Capital Stock

Prior to the Merger, DMI had 15,000,000 shares of common stock with a par value of $0.001 and 2,000,000 share of Series A Preferred Stock authorized with a par value of $0.001. At June 30, 2010, Ampio had 100,000,000 shares of common stock authorized with a par value of $0.0001 per share, and 10,000,000 shares of preferred stock authorized with a par value of $0.0001 per share.

Capital Transactions

As set forth in Footnote 1 Basis of Presentation and Merger, DMI and Chay completed a reverse merger in March 2010. In conjunction with the Merger, DMI s 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 issued 1,031,078 shares of common stock in March 2010 for $1,454,380 in cash (net of $350,000 in offering costs), of which $170,003 had been received in 2009 and previously 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 $363,125 and $1,013,542 as expense in the three and six months ended June 30, 2010, respectively see Note 7. The remaining $788,958 is reflected as a deferred charge in stockholders equity, and will be recognized into expense as the services are provided.

Ampio issued 47,000 shares of Common Stock in April 2010 for $82,250 in cash, of which $7,000 had been received in March 2010 and was previously classified as common stock subscribed.

Equity Incentive Plan

Ampio adopted a stock plan in March 2010. The stock plan reserves up to 2,500,000 shares of common stock 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. As of August 12, 2010, Ampio had issued options with respect to all 2,500,000 shares reserved under the plan.

Note 7 Stock-Based Compensation

Stock based compensation related to common stock issued to third party vendors in exchange for services of $363,125 and $1,013,542 in the three and six months ended June 30, 2010, respectively, was included in general and administrative expenses in the statement of operations. 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.

Note 8 Related Party Transactions

Immediately prior to the Merger, Chay accepted subscriptions for an aggregate of 1,325,000 shares of common stock from six officers and employees of DMI, for a purchase price of $150,183. DMI made advances to the six officers and employees in the aggregate amount of $150,183 to facilitate the share purchases by the six purchasers. These shares were issued immediately before the closing of the Merger. The advances are non-interest bearing and due on demand and are classified as a reduction to stockholder s equity.

Related party receivable at June 30, 2010 consisted of $1,527 receivable from DMI Bio Sciences, Inc. and $5,711 from the Chay Control Shareholders.

Note 9 Subsequent Events

During August 2010, Ampio issued $430,000 in principal amount of 8% Senior Convertible Unsecured Debentures due January 31, 2011 (the Debentures) together with warrants to related parties.

The Debentures are convertible into the Ampio s common stock at the lower of $1.75 per share, or the per-share price at which the Company issues common stock in an underwritten offering of $10,000,000 (the Offering). The Debentures are due and payable at the earlier of one

business day after the closing of the Offering or January 31, 2011. The Debenture terms specify that Ampio is obligated to obtain an extension of the $400,000 in principal amount of promissory notes previously issued to DMI BioSciences, Inc., to a due date consistent with the maturity date of the Debentures, and require Ampio to obtain a subordination agreement from DMI BioSciences, Inc., such that the Debentures will jointly constitute the senior unsecured indebtedness of Ampio.

Table of Contents

In conjunction with the issuance of the Debentures, the Company issued Warrants to the purchasers of the Debentures giving them the right to purchase an aggregate of 21,500 shares of the Company s common stock at an exercise price equal to the price at which the Company sells common stock in the Offering.

During August 2010, Ampio issued options to purchase 2,500,000 shares of common stock to its officers, directors and general counsel. The stock options have an exercise price of $1.01 per share and have a term of ten years.

During August 2010, Ampio entered into employment agreements with one of its officers. Ampio expects to enter into employment agreements with two additional officers on or about August 18, 2010. Under the employment agreements, the officers are collectively entitled to receive $415,000 in annual salaries. Upon completion of a financing of $10,000,000 or more, the annual salaries will collectively increase to $780,000. The employment agreements have terms of three years.

Table of Contents

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 Pharmaceutical 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 Current Report on Form 8-K filed with the Securities and Exchange Commission on March 8, 2010.

Overview

Ampio Pharmaceuticals, Inc. was created through the March 2010 merger (the Merger) of DMI Life Sciences, Inc., a Delaware corporation (DMI) with Chay Acquisitions, Inc., a wholly-owned subsidiary of Chay Enterprises, Inc. (Chay). As a result of the Merger, DMI became a wholly owned subsidiary of Chay. For accounting purposes, the merger was treated as a reverse acquisition with DMI as the acquirer and Chay as the acquired party. As a result, the business and financial information included in the report is the business and financial information of DMI. Subsequent to the Merger, Chay Enterprises, Inc. was renamed Ampio Pharmaceuticals, Inc., or Ampio, and reincorporated in Delaware. In this Form 10-Q, references to we, us, or similar terms mean Ampio and its subsidiaries, including DMI.

DMI was originally incorporated in Delaware in December 2008 and began conducting business in April 2009, at which time DMI purchased certain assigned intellectual property (including 107 patents and pending patent applications), business products and tangible property from DMI BioSciences, Inc., or BioSciences. Since the acquisition of the BioSciences assets, we have raised $1,500,000 through sales of common stock, strengthened our management team, completed the reverse merger into a public entity and continued our research and development activities. In addition to our current business described in the next paragraph, in April 2010, we entered into a letter of intent to acquire BioSciences in a tax-free exchange. BioSciences significant intellectual property asset is a drug that treats male sexual dysfunction, which we refer to as the PE drug.

We are a development stage company engaged in developing innovative, proprietary pharmaceutical drugs and diagnostic products to identify, treat and prevent a broad range of human diseases including metabolic disorders, cancer, and acute and chronic inflammation diseases. We intend to develop proprietary pharmaceutical drugs and diagnostic products which capitalize on DMI s intellectual property that includes assigned patents, pending patent applications, licensed patents,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 repurposed drugs, new molecular entities, or NMEs, and rapid point-of-care tests for diagnosis, monitoring and screening.

Known Trends or Future Events

The assets we purchased from BioSciences in April 2009 generated minimal revenues prior to their acquisition. We have not generated any revenues since the acquisition of assets from BioSciences. Since purchasing specific assets from BioSciences including patents, pending patent applications and minimal fixed assets as well as absorbing some of BioSciences employees, we have engaged in organizational activities, conducted a private placement, added to our management team, and completed the Merger. During April 2010, we announced that we had entered into a non-binding letter of intent to acquire BioSciences.

We expect to raise substantial additional capital in the near future in order to accelerate our development activities associated with several of our leading product candidates. We cannot assure you that we will secure such financing or that it will be adequate to execute our business strategy. Even if we obtain this financing, it may be costly and may require us to agree to provisions that will favor new investors over our 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, and we expect that our research and development expenses will increase significantly. We expect to generate operating losses for the foreseeable future, but intend to limit the extent of these losses by entering into co-development or collaboration agreements with one or more strategic partners. We have no such agreements in effect at the current time.

We expect our general and administrative expenses to increase substantially in 2010 as a result of our becoming a public company. Among other things, we expect expenses such as compliance and governance costs, legal and accounting fees, directors and officers liability insurance premiums, and directors fees will increase significantly. We will also incur investor relations expenses, listing fees, and other costs associated with being a public company.

12

Table of Contents

Significant Accounting Policies and Estimates

This Management s Discussion and Analysis section discusses our financial statements, which 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, contingencies, and litigation. 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.

Cash and Cash Equivalents

We consider 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 investments. We maintain balances from time to time in excess of the federally insured limits.

Patents

Costs of establishing patents consisting of legal fees paid to third parties and related costs are currently expensed as incurred. We will continue this practice until such time as we can demonstrate that such costs add economic value to our business, in which case we will capitalize such costs as part of our intangible assets. The primary consideration in making this determination is whether or not we can demonstrate that such costs have, in fact, increased the economic value of our intellectual property. Legal and related costs which do not meet the above criteria will be expensed as incurred in accordance with our current practice.

Stock-Based Compensation

We account for share-based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. We determine the estimated grant fair value using the Black-Scholes option pricing model and recognize compensation costs ratably over the vesting period using the straight-line method. Common stock issued in exchange for services is recorded at the fair value of the common stock on the date at which we becomes obligated to issue the shares. The value of the shares is expensed over the service period.

Income Taxes

Ampio uses the liability method of accounting for income taxes. Under this method, Ampio recognizes deferred assets and liabilities based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Ampio establishes a valuation allowance for all deferred tax assets for which there is uncertainty regarding realization.

Research and Development

Research and development costs are expensed as incurred.

Recently Issued Accounting Pronouncements

Ampio has reviewed the accounting pronouncements up through Update No. 2010-20 and does not expect any of them to have a material impact on its financial statements.

Results of Operations

Results of operations for the three and six months ended June 30, 2010 and 2009 are as follows:

Revenue

We are a development stage enterprise and have not generated material revenue in our operating history.

13

Table of Contents

Expenses

Research and Development

Research and development costs were $438,000 and $259,000 in the three months ended June 30, 2010 and 2009, and $776,000 and 259,000 in the six months ended June 30, 2010 and 2009, respectively. Research and development costs consist of the research and development of patents and intellectual property as well as drug development and clinical trials. The increase in expenses in 2010 relates to the increase in business activity as Ampio did not begin incurring operating expenses until April 2009. We have not capitalized any of our research and development costs.

General and Administrative

General and administrative costs are summarized as follows:

	Three Months ended June 30,		Six Months ended June 30,	
	2010	2009	2010	2009
Stock-based compensation	$ 364,000	$	$ 1,014,000	$
Professional fees	63,000	12,000	354,000	12,000
Labor	187,000	119,000	322,000	119,000
Occupancy, travel and other	91,000	18,000	157,000	18,000
	$ 705,000	$ 149,000	$ 1,847,000	$ 149,000

Stock-based compensation consists of the fair value of shares issued to outside consultants for services provided. Professional fees consists primarily of legal, audit and accounting costs related to the Merger and public company compliance costs. Labor consists of compensation costs attributable to Ampio s administrative employees. The increase in expenses in 2010 relates to the increase in business activity as Ampio did not begin incurring operating expenses until April 2009.

Net Cash Used in Operating Activities

During the six months ended June 30, 2010, our operating activities used $1,250,000 of cash. The use of cash reflected a $2,628,000 net loss, a non-cash charge of $1,014,000 for stock based compensation, an increase in accounts payables of $278,000 relating to professional fees incurred in conjunction with the Merger and other expenses, an increase in accrued salaries of $123,000 resulting from deferral of salaries by our management team, and changes in other assets and current liabilities which provided net cash of $36,000.

Net Cash from Financing Activities

Net cash provided by our financing activities was $1,312,000 for the six months ended June 30, 2010. During this period, we received $200,000 in loans from shareholders and $1,367,000 from the sale and subscription of common stock. Immediately prior to the Merger, we made advances of $150,000 to stockholders. Pursuant to the terms of the Merger Agreement, we were also required to place $125,000 in restricted cash into an escrow account, $20,000 of which was released in June and $75,000 was released in July 2010. The remaining escrowed funds are to be released to us on closing of a Qualified Financing (as defined) during the escrow period, or will be released to the principal stockholders of Chay if we do not obtain such financing during the escrow period, subject to adjustment for any sales of our common stock made by the Chay principal stockholders.

Liquidity and Capital Resources

We had unrestricted cash of $131,000 at June 30, 2010, and an additional $75,000 was released from restricted cash subsequent to June 30, 2010. We raised approximately $1,500,000 in a private placement of common stock conducted from November 2009 to March, 2010 and are actively seeking to raise additional capital. As of June 30, 2010 we had $400,000 in notes payable to stockholders, which mature on the earlier of a minimum financing of $5,000,000 or September 2, 2010. During August 2010, stockholders loaned us an additional $430,000. The loans mature at the earlier of a minimum financing of $10,000,000 or January 31, 2011. Additional loans from our stockholders may be a source of short-term liquidity. However, there is currently no formal commitment from our stockholders to provide additional short-term financing. In

order to execute on our business plan, it will be necessary for us to raise additional capital.

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.

Table of Contents

Contractual Obligations

As condition of the Merger, Ampio and certain of its shareholders (the Guarantors) and the Chay Control Shareholders entered into a Securities Put and Guarantee Agreement, or the Put Agreement. The Put Agreement provides that if Ampio is not successful in obtaining a minimum of $5.0 million in financing, within 150 days after the closing of the Merger, the Chay Control Shareholders will have the right to put back to Ampio all of the Chay common stock then owned by the Chay Control Shareholders for a put price of $250,000, subject to adjustment. Under the Put Agreement, the Guarantors agreed to jointly guarantee the payment of the put price by DMI if the put right becomes exercisable in accordance with its terms. In addition, Ampio placed into escrow a cash deposit of $125,000 that will be paid to the Chay Control Shareholders in the event the put right becomes exercisable by its terms. The Chay Control Shareholders have since released $95,000 of the funds in escrow. If any amounts are paid to the Chay Control Shareholders in accordance with the escrow agreement, such payment will reduce the amount the Guarantors would be required to pay on exercise of the put right.

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. Our outstanding indebtedness is limited currently to fixed rate instruments.

Item 4T. 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) 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 designed 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.

The Company made no significant changes in its internal controls over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, these controls during the six months ended June 30, 2010.

Table of Contents

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 Current Report on Form 8-K filed with the Securities and Exchange Commission on March 8, 2010 (the Form 8-K). However, the Company continues to require additional capital, the receipt of which is not assured.

Item 2. Unregistered Sales of Securities and Use of Proceeds.
The Company previously furnished the information required by Item 701 of Regulation S-K in the Form 8-K. The Company incorporates by reference herein the information included in Item 3.02 of the Form 8-K.

The Company issued 47,000 shares of stock in June 2010. The Company did not provide the information required by Item 701 of Regulation S-K on Form 8-K for reasons of materiality.

Item 3. Defaults Upon Senior Securities.
None.

Item 4. [Removed and Reserved].

Item 5. Other Information.
On April 22, 2010, the Company issued a press release announcing the execution of a letter of intent under which the Company intends to acquire DMI BioSciences, Inc. On April 27, 2010, a report of current event was filed with respect to the letter of intent.

On July 21 and 27, we issued two press releases, the first of which concerned the initiation of a Phase II clinical trial for one of our produt candidates, and the second of which concerned the finalization of negotiations concerning the terms of a definitive agreement to acquire DMI BioSciences, Inc. The July 27 press release contained an error in the title of the release which was corrected in a press release issued on August 3, 2010.

Item 6. Exhibits

Exhibit Number	Description
10.1	Notes Payable dated June 23, 2010, by and between DMI BioSciences, Inc. and Ampio Pharmaceuticals, Inc.
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.
99.1	Press release by Ampio Pharmaceuticals, Inc. dated July 21, 2010.
99.2	Press release by Ampio Pharmaceuticals, Inc. dated July 21, 2010.
99.3	Correction to press release by Ampio Pharmaceuticals, Inc. dated August 3, 2010.

Table of Contents

SIGNATURES

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

AMPIO PHARMACEUTICALS, INC.

By: /s/ Donald B. Wingerter, Jr.
Donald B. Wingerter, Jr.

Chief Executive Officer

Date: August 16, 2010

By: /s/ Bruce G. Miller
Bruce G. Miller

Chief Financial Officer

Date: August 16, 2010