

Ampio Pharmaceuticals, Inc.
Form 424B5
October 17, 2017

Filed pursuant to Rule 424(b)(5)
Registration No. 333-217094

PROSPECTUS SUPPLEMENT
(To Prospectus Dated April 20, 2017)

7,709,400 Shares Common Stock

We are offering 7,709,400 shares of our common stock, par value \$0.0001 per share, in a registered direct offering at a negotiated price of \$0.875 per share to certain investors that are not affiliated with us pursuant to this prospectus supplement and the accompanying prospectus and securities purchase agreements with such investors.

Our common stock is listed on the NYSE American under the symbol “AMPE.” The last reported sale price of our common stock on the NYSE American on October 13, 2017 was \$1.08 per share. As of October 16, 2017, the aggregate market value of our common stock held by non-affiliates, or the public float, was \$71,319,736, which was calculated based on 66,036,793 shares of our outstanding common stock held by non-affiliates as of the date of October 16, 2017 at a price of \$1.08 per share, which was the closing price of our common stock on the NYSE American on October 13, 2017. As of the date hereof, we have sold an aggregate of approximately \$23,725,653 of our securities, calculated pursuant to General Instruction I.B.6 of Form S-3, during the 12 calendar months prior to and including the date of this prospectus supplement.

Investing in our securities involves significant risks. Please read the information contained in or incorporated by reference under the heading “Risk Factors” beginning on page S-9 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 determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Offering price	\$ 0.875	\$6,745,725
Placement agent fee(1)(2)	\$ 0.046	\$356,438
Proceeds, before expenses, to us	\$ 0.829	\$6,389,287

We have engaged Joseph Gunnar & Co., LLC and Fordham Financial Management, Inc. to act as placement agents (1) for this offering. We have agreed to reimburse the placement agents for certain of their expenses as described under the “Plan of Distribution” on page S-15 of this prospectus supplement.

Represents a fee of 7% of the purchase price for the shares sold in the offering, excluding any purchase by an (2) existing investor identified in the engagement agreement, on which the placement agents will not receive a fee, and including an advisory fee to be paid to the placement agents.

Delivery of the shares will take place on or about October 18, 2017, subject to the satisfaction of certain conditions.

Joseph Gunnar & Co. Fordham Financial Management

The date of this prospectus supplement is October 16, 2017.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is part of the registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a “shelf” registration process and consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. Generally, when we refer only to the “prospectus,” we are referring to both parts combined. This prospectus supplement may add to, update or change information in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus.

If information in this prospectus supplement is inconsistent with the accompanying prospectus or with any document incorporated by reference that was filed with the SEC before the date of this prospectus supplement, you should rely on this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents incorporated into each by reference include important information about us, the securities being offered and other information you should know before investing in our securities. You should also read and consider information in the documents we have referred you to in the sections of this prospectus supplement entitled “Where You Can Find Additional Information” and “Incorporation of Certain Information by Reference.”

You should rely only on this prospectus supplement, the accompanying prospectus, the documents incorporated or deemed to be incorporated by reference herein or therein and any free writing prospectus prepared by us or on our behalf. We have not authorized anyone to provide you with information that is in addition to or different from that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not offering to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus or any free writing prospectus, or incorporated by reference herein, is accurate as of any date other than as of the date of this prospectus supplement or the accompanying prospectus or any free writing prospectus, as the case may be, or in the case of the documents incorporated by reference, the date of such documents regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sale of our securities. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

All references in this prospectus supplement or the accompanying prospectus to “the Company,” “our Company,” “we,” “us,” or “our” mean Ampio Pharmaceuticals, Inc., unless we state otherwise or the context otherwise requires.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the securities or possession or distribution of this prospectus supplement or the accompanying prospectus in that jurisdiction. Persons who come into possession of this prospectus supplement or the accompanying prospectus

in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus supplement or the accompanying prospectus applicable to that jurisdiction.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-3 (File No. 333-217094) under the Securities Act of 1933, as amended, or the Securities Act, with respect to the securities offered by this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus filed as part of the registration statement do not contain all the information set forth in the registration statement and its exhibits and schedules. For further information about us, we refer you to the registration statement and to its exhibits and schedules.

We file annual, quarterly and current reports and other information with the SEC. You may read and copy any materials we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC also maintains an internet website at www.sec.gov that contains periodic and current reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC. Our common stock is listed on the NYSE American, and reports, proxy statements and other information concerning us can also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

These documents are also available, free of charge, through the investor relations section of our website, which is located at www.ampiopharma.com. Information contained on or accessible through our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information on or accessible through our website to be part of this prospectus supplement or the accompanying prospectus.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to “incorporate by reference” the information we file with it, which means that we can disclose important information to you by referring you to those documents instead of having to repeat the information in this prospectus supplement and the accompanying prospectus. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, and later information that we file with the SEC prior to the completion of this offering will automatically update and supersede this information. We incorporate by reference the documents listed below that we have filed with the SEC:

• description of our common stock contained in our Registration Statement on Form 8-A, filed on June 6, 2013;

• our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed on March 16, 2017;

• our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2017, filed on May 12, 2017, and the quarter ended June 30, 2017, filed on August 9, 2017;

• our Current Reports on Form 8-K filed on January 10, 2017, March 13, 2017, March 28, 2017, May 1, 2017, June 2, 2017, June 6, 2017, June 15, 2017, July 7, 2017, August 29, 2017, September 7, 2017, September 22, 2017, September 27, 2017 and October 16, 2017; and

• our definitive proxy statement on Schedule 14A filed on August 29, 2017.

We also incorporate by reference into this prospectus supplement and the accompanying prospectus all documents (other than current reports furnished under Item 2.02 or Item 7.01 of Form 8-K and exhibits filed on such form that are related to such items) that are filed by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, after the date of this prospectus supplement until we sell all of the securities covered by this prospectus supplement and the accompanying prospectus or the sale of securities by us pursuant to this prospectus supplement and the accompanying prospectus is terminated.

A statement contained in a document incorporated by reference into this prospectus supplement and the accompanying prospectus shall be deemed to be modified or superseded for purposes of this prospectus supplement and the accompanying prospectus to the extent that a statement contained in this prospectus supplement and the accompanying prospectus or in any other subsequently filed document which is also incorporated in this prospectus supplement and the accompanying prospectus modifies or replaces such statement. Any statements so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement and the accompanying prospectus.

You may request a copy of these documents, orally or in writing, which will be provided to you at no cost by contacting:

Ampio Pharmaceuticals, Inc.

373 Inverness Parkway, Suite 200,

Englewood, Colorado 80112

Attention: Chief Financial Officer

Telephone: (720) 437-6500

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein contain forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “believe,” “expect,” “may,” “will,” “anticipate,” “intend,” “estimate,” “project,” “plan,” “assume” or other similar expressions, although not all forward-looking statements contain these identifying words. All statements contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein regarding our future strategy, plans and expectations regarding clinical trials, future regulatory approvals, our plans for the manufacturing and commercialization of our products, future operations, projected financial position, potential future revenues, projected costs, future prospects, and results that might be obtained by pursuing management’s current plans and objectives are forward-looking statements. Forward-looking statements include, but are not necessarily limited to, those relating to:

- our expectations related to the use of proceeds, if any, from this offering;
- our need for, and ability to raise, additional capital;
- the results and timing of our clinical trials;
 - the regulatory review process and any regulatory approvals that may be issued or denied by the Food and Drug Administration (FDA), the European Medicines Agency (EMA), or other regulatory agencies;
- our manufacturing plans;
- our need to secure collaborators to license, manufacture, market and sell any products for which we receive regulatory approval in the future;
- the results of our internal research and development efforts;
- the commercial success and market acceptance of any of our product candidates that are approved for marketing in the United States or other countries;
-

the safety and efficacy of medicines or treatments introduced by competitors that are targeted to indications which our product candidates have been developed to treat;

the acceptance and approval of regulatory filings;

our current or prospective collaborators' compliance or non-compliance with their obligations under our agreements with them, or decisions by our collaborators to discontinue clinical trials and return product candidates to us;

our plans to develop other product candidates; and

other factors discussed elsewhere in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein and therein.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on the cover of this prospectus supplement. New risks and uncertainties arise from time to time, and it is impossible for us to predict these matters or how they may affect us. We have included important factors in the cautionary forward-looking statements included in this prospectus supplement, particularly in the section of this prospectus supplement entitled "Risk Factors," which we believe over time, could cause our actual results, performance or achievements to differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements. We have no duty to, and do not intend to, update or revise the forward-looking statements in this prospectus supplement after the date of this prospectus supplement except to the extent required by the federal securities laws. You should consider all risks and uncertainties disclosed in our filings with the SEC, described in the sections of this prospectus supplement entitled "Where You Can Find More Information" and "Incorporation of Certain Information by Reference" and the sections of the accompanying prospectuses entitled "Incorporation of Certain Information by Reference" and "Where You Can Find Additional Information," all of which are accessible on the SEC's website at www.sec.gov.

SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all the information that you should consider before investing in our securities. You should read the entire prospectus supplement and the accompanying prospectus carefully, including “Risk Factors” contained in this prospectus supplement and the financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision.

Company Overview

We are a biopharmaceutical company focused primarily on the development of therapies to treat prevalent inflammatory conditions for which there are limited treatment options.

Background

Our product portfolio is primarily based on the work of Dr. David Bar-Or, the Director of Trauma Research LLC for the Swedish Medical Center located in Englewood, Colorado, St. Anthony Hospital located in Lakewood, Colorado and the Medical Center of Plano, Plano Texas. For over two decades, while directing these trauma research laboratories, Dr. Bar-Or and his staff have built a robust portfolio of product candidates focusing on inflammatory conditions. Our initial clinical programs were selected from Dr. Bar-Or’s research based on certain criteria, particularly the ability to advance the candidates rapidly into late-stage clinical trials. The benchmarks used to build our pipeline were products with: (i) potential indications to address large underserved markets; (ii) strong intellectual property protection and the potential for market and data exclusivity; and (iii) a well-defined regulatory path to marketing approval.

We are 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.

Business Overview

Our Product Pipeline

AMPION

Ampion for Osteoarthritis and Other Inflammatory Conditions

Ampion is the < 5 kDa ultrafiltrate of 5% Human Serum Albumin, or HSA, an approved biologic product. Ampion is a non-steroidal, low molecular weight, anti-inflammatory biologic, which has the potential to be used in a wide variety of acute and chronic inflammatory conditions, as well as immune-mediated diseases. We are currently developing Ampion as an intra-articular injection to treat pain due to severe osteoarthritis of the knee.

Ampion and its known components have demonstrated a broad spectrum of anti-inflammatory and immune modulatory activity which support the mechanism of action. We have published several scientific papers on Ampion, including three peer-reviewed publications, “The Low Molecular Weight Fraction of Commercial Human Serum Albumin (LMWF5A-Ampion) Induces Morphologic and Transcriptional Changes of Bone Marrow-Derived Mesenchymal Stem Cells”, “Anti-Inflammatory Activity in the Low Molecular Weight Fraction of Commercial Human Serum Albumin (LMWF5A)” and “Inflammatory pathways in knee osteoarthritis: potential targets for treatment”.

We have completed seven trials related to Ampion and recently completed enrollment and dosing of patients in a pivotal phase three trial for this product.

Clinical Development Pathway

In September and December 2016, we met with the Center for Biologics Evaluation and Research, or CBER, Division of the U.S. Food and Drug Administration, or FDA, to seek guidance on the best path forward to obtain a Biological License Application, or BLA, for Ampion to treat patients suffering from pain caused by severe osteoarthritis of the knee. As a result of these meetings, we continued our discussions with the FDA into the first quarter of fiscal 2017 while analyzing the best way to proceed towards filing our BLA for Ampion. Based on guidance from the FDA, we will conduct another Ampion trial that will be smaller than our prior trials with 168 patients, randomization of 6 to 1 (Ampion/Saline) on patients with severe osteoarthritis of the knee, defined radiologically as KL 4 patients. The 6-1 randomization will preserve blinding and prevent the bias in the assessment that might be associated with an unblinded evaluation; however, only Ampion treated patients will be evaluated. This 12-week study will evaluate the responder rate of Ampion treated patients as defined by Osteoarthritis Research Society International (“OARSI”), which includes pain, function, and patient global assessment (PGA). The outcome of this study will contribute to the label of Ampion which may include pain, function, and patient global assessment. Using the Outcome Measures in

Rheumatology Clinical Trials (“OMERACT”) OMERACT-OARSI responder rate definition and the analysis proposed in this protocol, all previous Ampion™ single injections clinical trials would have successfully met this endpoint. We believe this trial can be completed during the fourth quarter of fiscal 2017. If the trial is successful, we plan to file the BLA thereafter, pending any partnership discussions.

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Future Development

We also intend to study Ampion for therapeutic applications outside of osteoarthritis of the knee and hand. We may engage development partners to study Ampion in various conditions including: (i) acute and chronic inflammatory conditions; (ii) degenerative joint diseases; and (iii) respiratory disorders. Based on the continuing evaluation, we are also studying Ampion's effects on cellular behavior to indicate potential effects on disease modification across multiple conditions. If successful, we believe these additional formulations and potential therapeutic indications will supplement the Ampion clinical portfolio, and will enable clinical applications in large therapeutic markets where there are significant unmet needs.

Market Opportunity

Osteoarthritis, or OA, is the most common form of arthritis, affecting over 100 million people in the United States with over 48 million people suffering from osteoarthritis of the knee. It is a progressive disorder of the joints involving degradation of the intra-articular cartilage, joint lining, ligaments, and bone. The incidence of developing osteoarthritis of the knee over a lifetime is approximately 45%. Certain risk factors in conjunction with natural wear and tear lead to the breakdown of cartilage. Osteoarthritis is caused by inflammation of the soft tissue and bony structures of the joint, which worsens over time and leads to progressive thinning of articular cartilage. Other progressive effects include narrowing of the joint space, synovial membrane thickening, osteophyte formation and increased density of subchondral bone. The global osteoarthritis of the knee market addresses moderate to moderately severe OA and is currently over \$3.0 billion. We believe that this market does not account for the underserved severely diseased patients. The global demand for osteoarthritis of the knee treatment is expected to be fueled by aging demographics and increasing awareness of treatment options. Despite the size and growth of the osteoarthritis of the knee market, few adequate treatment options currently exist, especially in the severely diseased patient population.

Competition

The currently available treatments for osteoarthritis of the knee include oral non-steroidal anti-inflammatory agents, opioids, pain patches, intra-articular, or IA, corticosteroids, and IA hyaluronic acid, or HA, injections. Despite wide availability and years of clinical use, none of these agents are adequately meeting the needs of the market. In May 2013, the American Academy of Orthopedic Surgeons, or AAOS, issued their second edition of clinical practice guidelines for the treatment of osteoarthritis of the knee. The AAOS was unable to recommend for or against the use of intra-articular corticosteroid injections as studies designed to indicate efficacy are inconclusive. Further, the AAOS was also unable to recommend for or against the use of acetaminophen, opioids, or pain patches as the efficacy studies in this area are also inconclusive. Most importantly, the AAOS does not recommend (with a strong 'strength of recommendation') the use of hyaluronic acid injections as, in the AAOS' assessment, the clinical evidence does not support their use. This clinical practice guideline underscores a pervasive unmet need in the treatment of osteoarthritis

of the knee given few accepted and available treatments. We believe Ampion is a novel treatment option that, if approved, would be the first non-steroidal, non-hyaluronic-based intra-articular treatment available for the treatment of pain due to osteoarthritis of the knee.

Ampion Manufacturing Facility

In December 2013, we entered into a ten-year lease of a multi-purpose facility containing approximately 19,000 square feet. This facility includes an FDA compliant clean room to manufacture Ampion, research laboratories and our corporate offices.

We moved into our manufacturing facility in the summer of 2014. Since that time we have implemented a quality system, validated the facility for human-use products and produced Ampion. We presented on single use technology in manufacturing at the 24th Annual Aseptic Processing Technology Conference for the International Society for Pharmaceutical Engineers in February of 2015. We are now in the process of producing the FDA required registration batches of Ampion. The facility was placed in service during the first quarter of 2016. In our facility, we manufactured the Ampion drug and placebo (saline) for the PIVOT Trial and for the OA trial that we are currently conducting.

OPTINA

Optina for Diabetic Macular Edema

Optina is a low-dose formulation of danazol that we are developing to treat diabetic macular edema, or DME. Danazol is a synthetic derivative of modified testosterone ethisterone, and we believe it affects vascular endothelial cell linkage in a biphasic manner. At low doses, danazol decreases vascular permeability by increasing the barrier function of endothelial cells. The lipophilic low-molecular-weight weak androgen has the potential to treat multiple angiopathies. Steroid hormones control a variety of functions through slow genomic and rapid non-genomic mechanisms. Danazol immediately increases intracellular cyclic adenosine monophosphate through the rapid activation of membrane-associated androgen, steroid binding globulin, and calcium channel receptors. At lower concentrations, such as Optina, danazol binds to androgen and steroid binding globulin receptors stimulating the formation of a cortical actin ring. At higher concentrations, activation of the calcium channels shifts the balance towards stress fiber formation and increases vascular permeability.

When organized into a cortical ring, filamentous actin increases the barrier function of endothelial cells by tethering adhesion molecule complexes to the cytoskeleton. In this orientation, increased cortical actin improves tight junctions which strengthen cell-to-cell adhesions. Formation of the cortical actin ring thereby restricts leakage across the cell membrane.

We have completed two clinical trials of Optina and met with the Division of the Transplant and Ophthalmology Products of the FDA in late 2015 to discuss the results of the OptimEyes clinical trial of Optina and to seek guidance on the next steps to approval. The guidance from the FDA was that we perform a confirmatory study on patients with DME who are refractory to the currently available drugs, which if successful, would qualify Optina as a rescue medication for patients who have no treatment options (failed available therapies). The study could have significantly fewer patients than in our previous OptimEyes study, based on power calculations and guidance received from the FDA, and could include approximately 80 patients randomized 1:1 between placebo and Optina. Optina would be compared to placebo, not to other anti-VEGF drugs, since we are addressing a population that failed these alternative treatments. The FDA will consider improved vision as measured by best corrected visual acuity, which is statistically and clinically meaningful, as determined by experts in the field. The duration of the study is expected to be a maximum of 12 months. We have also considered conducting a trial in combination with other anti-VEGF drugs as we believe the effect of Optina with the anti-VEGF drugs could be cumulative.

The FDA has indicated that, for §505(b)(2) new drug applications, complete studies of the safety and effectiveness of a candidate product may not be necessary if appropriate bridging studies provide an adequate basis for reliance upon the FDA's findings of safety and effectiveness for a previously approved product.

Corporate Information

Our predecessor, DMI Life Sciences, Inc., or Life Sciences, was incorporated in Delaware in December 2008. In March 2010, Life Sciences was merged with a subsidiary of Chay Enterprises, Inc. As a result of this merger, Life Sciences stockholders became the controlling stockholders of Chay Enterprises. Following the merger, we reincorporated in Delaware as Ampio Pharmaceuticals, Inc. in March 2010.

Our principal executive offices are located at 373 Inverness Parkway, Suite 200, Englewood, Colorado 80112, and our telephone number is (720) 437-6500. Additional information about us is available on our website at www.ampiopharma.com. The information contained on or that may be obtained from our website is not, and shall not be deemed to be, a part of this prospectus supplement.

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THE OFFERING

The following is a brief summary of some of the terms of the offering and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus. For a more complete description of the terms of our common stock, see the “Description of Securities” section in this prospectus supplement and the “Description of Capital Stock” section in the accompanying prospectus.

Common stock we
are offering 7,709,400 shares.

Common stock to be
outstanding after this offering 75,941,809 shares.

NYSE American
Symbol Our common stock is quoted on the NYSE American under the symbol “AMPE.”

Use of Proceeds We estimate that the net proceeds from this offering, after payment of estimated offering expenses payable by us, will be approximately \$6.3 million. We intend to use the net proceeds from this offering for working capital and general corporate purposes, including funding of the Ampion clinical trial. See “Use of Proceeds.”

Risk Factors Investing in our securities involves significant risks. Please read the information contained in or incorporated by reference under the heading “Risk Factors” beginning on page S-9 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.

The number of shares of common stock shown above to be outstanding after this offering is based on 68,232,409 shares outstanding as of June 30, 2017 and excludes:

7,797,498 shares of our common stock issuable upon the exercise of stock options outstanding as of June 30, 2017, at a weighted average exercise price of \$3.36 per share;

2,427,503 shares of our common stock reserved for future issuance under our 2010 Stock Incentive Plan as of June 30, 2017; and

17,518,040 shares of our common stock issuable upon the exercise of warrants outstanding as of June 30, 2017, at a weighted average exercise price of \$0.73 per share.

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RISK FACTORS

Investing in our securities involves a high degree of risk. In addition to the other information contained in this prospectus supplement and in the documents we incorporate by reference, you should carefully consider the risks discussed below and under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 before making a decision about investing in our securities. The risks and uncertainties discussed below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 are not the only ones facing us. Additional risks and uncertainties not presently known to us may also harm our business. If any of these risks occur, our business, financial condition and operating results could be harmed, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Common Stock and This Offering

Our stock price has been and could remain volatile, which could further adversely affect the market price of our stock, our ability to raise additional capital and/or cause us to be subject to securities class action litigation.

The market price of our common stock has historically experienced and may continue to experience significant volatility. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock. Such market price volatility could adversely affect our ability to raise additional capital. In addition, we may be subject to securities class action litigation as a result of volatility in the price of our common stock, which could result in substantial costs and diversion of management’s attention and resources and could harm our stock price, business, prospects, results of operations and financial condition.

The market price of our common stock may be adversely affected by market conditions affecting the stock markets in general, including price and trading fluctuations on the NYSE American.

Market conditions may result in volatility in the level of, and fluctuations in, market prices of stocks generally and, in turn, our common stock and sales of substantial amounts of our common stock in the market, in each case being unrelated or disproportionate to changes in our operating performance. Concerns over global stability and economic conditions in the United States and abroad have contributed to the extreme volatility of the markets which may have an effect on the market price of our common stock.

Future sales of common stock or warrants by existing stockholders could cause our stock price to decline and adversely impact the trading price of our common stock.

If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock or warrants in the public market, the trading price of our common stock could decline significantly and may be adversely impacted. We cannot predict the effect, if any, that future public sales of these securities or the availability of these securities for sale will have on the market and trading price of our securities. If our existing stockholders sell substantial amounts of our common stock or warrants in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market and trading price of our securities, even if there is no relationship between such sales and the performance of our business.

In the future, we may sell additional shares of our common stock to raise capital or issue stock in connection with acquisitions. In addition, a substantial number of shares of our common stock are reserved for issuance upon the exercise of warrants, stock options and the vesting of restricted stock awards. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the market price of our common stock or warrants and impair our ability to raise capital through the sale of additional equity securities.

You will experience immediate and substantial dilution in the net tangible book value per share of the common stock you purchase.

Since the offering price per share of the securities being offered is substantially higher than the net tangible book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on the offering price of \$0.875 per share, if you purchase shares in this offering, you will suffer immediate and substantial dilution of \$0.743 per share in the net tangible book value of the common stock. See the section entitled "Dilution" below for a more detailed discussion of the dilution you would incur if you purchase securities in this offering.

We may not be able to comply with the listing requirements of, and may be delisted from, the NYSE American.

In September 2017, we received a letter from the NYSE American, or the Exchange, stating that the Exchange had determined that we were not in compliance with Sections 1003(a)(ii) and 1003(a)(iii) of the Exchange Company Guide and the stockholders' equity continued listing standards applicable to us due to our recently reported stockholders' equity of \$3,734,756 as of June 30, 2017 and net losses in our five most recent fiscal years ended December 31, 2016. We have submitted a plan advising the Exchange of the actions we have taken and will take to regain compliance with the continued listing standards by March 1, 2019. If our plan is accepted by the Exchange, then we will be able to continue our listing during the period ending March 1, 2019, during which time we will be subject to periodic reviews, including quarterly monitoring, for compliance with the plan. If the plan is not accepted, delisting proceedings will commence. Furthermore, if the plan is accepted by the Exchange, but we are not in compliance with the continued listing standards of the Exchange Company Guide by March 1, 2019, or if we do not make progress consistent with the plan, then the Exchange staff will initiate delisting proceedings as appropriate. We expect that following receipt of the proceeds from this offering we will be in compliance with the stockholders' equity continued listing standards applicable to us, however, there can be no assurances that we will be able to continue to comply with the Exchange listing requirements.

Management will have broad discretion as to the use of the proceeds from this offering, and we may not use the proceeds effectively.

Our management will have broad discretion as to the use of the net proceeds from any offering by us and could use them for purposes other than those contemplated at the time of this offering. Accordingly, you will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that the proceeds will be invested in a way that does not yield a favorable, or any, return for our Company.

USE OF PROCEEDS

We estimate that the proceeds from this offering will be approximately \$6.3 million, after deducting estimated offering expenses payable by us. We intend to use the net proceeds from this offering for working capital and general corporate purposes, including funding of the Ampion clinical trial. We have not determined the amounts we plan to spend on the areas listed above or the timing of these expenditures. As a result, our management will have broad discretion to allocate the net proceeds from this offering. Pending application of the net proceeds as described above, we intend to invest the net proceeds of this offering in short-term, investment-grade, interest-bearing securities.

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DILUTION

If you purchase shares of our common stock in this offering, you will experience dilution to the extent of the difference between the public offering price of the shares and the net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of June 30, 2017 was approximately \$3.7 million, or \$0.055 per share of common stock. Net tangible book value per share is equal to our total tangible assets minus total liabilities, all divided by the number of shares of common stock outstanding as of June 30, 2017.

After giving effect to the sale of 7,709,400 shares of our common stock at a price of \$0.875 per share, and after deducting offering expenses payable by us, our as adjusted net tangible book value would have been approximately \$10.0 million, or approximately \$0.132 per share of common stock, as of June 30, 2017. This represents an immediate increase in net tangible book value of approximately \$0.077 per share to existing stockholders and an immediate dilution of approximately \$0.743 per share to new investors. The following table illustrates this calculation on a per share basis:

Offering price per share	\$0.875
Net tangible book value per share as of June 30, 2017	\$0.055
Increase in net tangible book value per share attributable to new investors	\$0.077
As adjusted net tangible book value per share after giving effect to this offering	\$0.132
Dilution per share to investors in this offering	\$0.743

The number of shares of common stock shown above to be outstanding after this offering is based on 68,232,409 shares outstanding as of June 30, 2017 and excludes:

7,797,498 shares of our common stock issuable upon the exercise of stock options outstanding as of June 30, 2017, at a weighted average exercise price of \$3.36 per share;

2,427,503 shares of our common stock reserved for future issuance under our 2010 Stock Incentive Plan as of June 30, 2017; and

17,518,040 shares of our common stock issuable upon the exercise of warrants outstanding as of June 30, 2017, at a weighted average exercise price of \$0.73 per share.

The above illustration of dilution per share to investors participating in this offering assumes no exercise of outstanding options to purchase our common stock or outstanding warrants to purchase shares of our common stock. The exercise of outstanding options and warrants having an exercise price less than the offering price will increase dilution to new investors. In addition, we may choose to raise additional capital depending on market conditions, our capital requirements and strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

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PRICE RANGE OF COMMON STOCK

Our common stock is traded on the NYSE American. Prior to June 17, 2013, our common stock had been trading on the NASDAQ Capital Market under the ticker symbol “AMPE”, and prior to May 19, 2011, it was previously quoted on the Over-the-Counter Bulletin Board under the symbol “AMPE.OB.” The following table sets forth the intra-day high and low sale price information for our common stock as reported by the NYSE American, NASDAQ Capital Market and the Over-the-Counter Bulletin Board, for the respective periods that our common stock was traded thereon.

	High	Low
Year ending December 31, 2017		
1st Quarter	\$1.05	\$0.75
2nd Quarter	\$1.04	\$0.52
3rd Quarter	\$0.78	\$0.38
4th Quarter (through October 13, 2017)	\$1.34	\$0.61
Year ended December 31, 2016		
1st Quarter	\$3.31	\$1.90
2nd Quarter	\$4.21	\$1.29
3rd Quarter	\$1.45	\$0.70
4th Quarter	\$1.14	\$0.59
Year ended December 31, 2015		
1st Quarter	\$7.60	\$3.68
2nd Quarter	\$7.38	\$1.79
3rd Quarter	\$3.12	\$2.00
4th Quarter	\$3.28	\$2.51
Year ended December 31, 2014		
1st Quarter	\$9.73	\$5.70
2nd Quarter	\$8.35	\$5.44
3rd Quarter	\$8.59	\$3.33
4th Quarter	\$4.16	\$3.25

On October 13, 2017, the last reported sale price for our common stock on the NYSE American was \$1.08 per share. As of October 16, 2017, there were of record approximately 270 holders of our common stock.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently intend to retain our future earnings, if any, for use in our business and therefore do not anticipate paying cash dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion.

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PLAN OF DISTRIBUTION

We have entered into a securities purchase agreement with investors pursuant to which we will sell to such purchasers 7,709,400 shares of our common stock. The shares of our common stock will be sold to the investors in this offering at a negotiated price of \$0.875 per share. We negotiated the prices of the securities offered in this offering with the investors. The factors considered in determining the price included the recent market price of our common stock, the general condition of the securities market at the time of this offering, the history of, and the prospects for, the industry in which we compete, our past and present operations, and our prospects for future revenues.

The securities purchase agreement contains customary representations, warranties and covenants for transactions of this type. We have also agreed to indemnify the investors against certain losses resulting from our breach of any of our representations, warranties, or covenants under agreements with the purchasers as well as under certain other circumstances described in the securities purchase agreement.

We will deliver the shares of common stock being issued to the investors electronically upon receipt of investor funds for the purchase of the shares of our common stock offered pursuant to this prospectus supplement. In the event an investor elects to make settlement through the placement agents, on the business day prior to the closing date of the offering, the Company will deliver to the placement agents electronically the shares purchased by such investor, and the placement agents will wire to the Company the net proceeds of such sale on the closing date. We currently anticipate that the closing of the sale of the shares of common stock offered pursuant to this prospectus supplement will take place, and we expect to deliver the shares of our common stock that are purchased, on or about October 18, 2017. The obligations of the investors to close this offering are subject to certain conditions, including the absence of any material adverse change in our business and the receipt of customary letters and certificates.

We estimate the total offering expenses of this offering that will be payable by us will be approximately \$500,000, which include legal and printing costs and various other fees. At the closing, the Depository Trust Company will credit the common stock directly to investors at the address set forth in the securities purchase agreement.

In the securities purchase agreement, we have agreed, subject to certain exceptions, that we (or our subsidiaries) will not within 90 days following the closing of this offering, issue any equity securities or securities convertible into equity securities.

We have engaged Joseph & Gunnar & Co., LLC and Fordham Financial Management, Inc. to act as placement agents for the offering. We have agreed to pay the placement agents a fee of 7% of the aggregate purchase price for the securities sold in the offering, excluding any purchase by an existing investor identified in the engagement agreement,

on which the placement agents will not receive a fee. We have also agreed to reimburse the placement agents for certain expenses, including up to \$2,500 for bound volumes and commemorative mementos, and up to \$60,000 for fees and expenses of the placement agents' legal counsel. We have also agreed to pay Joseph Gunnar & Co., LLC an advisory fee of \$115,763 upon the closing of the offering.

Our directors and officers have entered into lock-up agreements with Joseph Gunnar & Co., LLC. Under these agreements, these individuals have agreed, subject to specified exceptions, not to sell or transfer any common stock or securities convertible into, or exchangeable or exercisable for, our common stock during a period ending 90 days after the date of this prospectus supplement, without first obtaining the written consent of Joseph Gunnar & Co., LLC.

The placement agents for this offering also acted as the placement agents for our public offering that we completed in June 2017.

The foregoing description of the securities purchase agreement is only a summary, does not purport to be complete and is qualified in its entirety by reference to the securities purchase agreement, a copy of which is attached as an exhibit to our Current Report on Form 8-K filed with the SEC in connection with this offering and is incorporated herein by reference.

LEGAL MATTERS

The validity of the securities offered hereby has been passed upon for us by Goodwin Procter LLP, New York, New York. Sichenzia Ross Ference Kesner LLP, New York, New York, acted as counsel for the placement agents.

EXPERTS

The financial statements of Ampio Pharmaceuticals, Inc. as of December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016, have been incorporated by reference herein from our Annual Report on Form 10-K for the year ended December 31, 2016, in reliance upon the report of EKS&H LLLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

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PROSPECTUS

\$100,000,000

Common Stock

Preferred Stock

Debt Securities

Warrants

Units

5,000,000 Shares of Common Stock Offered by

the Selling Stockholder

Issuable Upon Exercise of Warrants

We may, from time to time, offer and sell up to \$100,000,000 of any combination of our common stock, preferred stock, debt securities or warrants described in this prospectus, either individually or in combination with other securities, at prices and on terms described in one or more supplements to this prospectus. We may also offer common stock or preferred stock upon conversion of debt securities, common stock upon conversion of preferred stock, or common stock, preferred stock or debt securities upon the exercise of warrants. We may also authorize one or more free writing prospectuses to be provided to you in connection with these offerings.

In addition, the selling stockholder may from time to time, offer and sell up to 5,000,000 shares our common stock issuable upon the exercise of warrants held by such selling stockholder. We will not receive any of the proceeds from

the sales of common stock from the selling stockholder, however, the selling stockholder would pay us the exercise price of \$0.40 per, for an aggregate amount of \$2,000,000 if the warrants are exercised for cash, in full, subject to any adjustments. See "Use of Proceeds." The selling stockholder may sell the shares of common stock described in this prospectus in a number of different ways and at varying prices. See "Plan of Distribution" below for additional information on how the selling stockholder may conduct sales of our common stock. We have agreed to bear the expenses of the registration of the common stock under the federal and state securities laws on behalf of the selling stockholder.

Each time we offer securities, we will provide the specific terms of the securities offered in one or more supplements to this prospectus. We may also authorize one or more free writing prospectuses to be provided to you in connection with these offerings. The prospectus supplement and any related free writing prospectus may also add, update or change information contained in this prospectus. You should carefully read this prospectus, the applicable prospectus supplement and any related free writing prospectus, as well as any documents incorporated by reference, before buying any of the securities being offered.

The securities offered by this prospectus may be sold directly by us to investors, through agents designated from time to time or to or through underwriters or dealers. We will set forth the names of any underwriters or agents and any applicable fees, commissions, discounts and over-allotments in an accompanying prospectus supplement. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution" in this prospectus and in the applicable prospectus supplement. The price to the public of such securities and the net proceeds we expect to receive from such sale will also be set forth in a prospectus supplement.

Our common stock is traded on the NYSE MKT LLC under the symbol "AMPE." On March 29, 2017, the last reported sale price of our common stock on the NYSE MKT LLC was \$0.80. The applicable prospectus supplement will contain information, where applicable, as to any other listing, if any, on the NYSE MKT LLC or any securities market or other exchange of the securities covered by the applicable prospectus supplement.

\$520 \$29,720

Richard S. Lochen, Jr.

\$29,700 0 0 0 0 \$198 \$29,898

George H. Stover, Jr.

\$29,800 0 0 0 0 \$3,204(2) \$33,004

Earle A. Wootton

\$30,800 0 0 0 0 \$1,520 \$32,320

Joseph T. Wright, Jr.

\$29,700 0 0 0 0 \$468 \$30,168

(1) Amount reflects the Imputed Income on the Directors Split Dollar Insurance Plan for 2011.

(2) Includes \$2,163 which reflects compensation expense recorded in 2011 from a Supplemental Excess Retirement Plan for Mr. Stover. Under this plan, which is a non-qualified plan, he will receive a supplemental payment in order to provide him with an annual retirement benefit.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors and Executive Officers to file reports of holdings and transactions in the Company's common stock with the Securities and Exchange Commission. Based on Company records and other information, the Company believes that all Securities and Exchange Commission filing requirements applicable to its Directors and Executive Officers with respect to the Company's 2011 fiscal year were met.

**BENEFICIAL OWNERSHIP OF PEOPLES FINANCIAL SERVICES CORP. HELD BY PRINCIPAL
SHAREHOLDERS AND MANAGEMENT**

Principal Shareholders The following table sets forth, to the best of our knowledge, those persons or entities who owned 5% or more of the outstanding shares of the Company's Common Shares as of December 31, 2011.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Class
CEDE & CO (1) New York, NY	741,233 Shares	23.75%
Employee Stock Ownership Plan of Peoples Neighborhood Bank (2) Hallstead, PA	163,512 Shares	5.24%

(1) Holds shares of various brokerage firms, banks or other nominees, on behalf of individual shareholders, commonly referred to as shares held in "street name."

(2) Shares held by various employees and former employees of Peoples Neighborhood Bank.

Directors, Officers and Nominees The following table sets forth information concerning the beneficial ownership of the Company's Common Shares as of December 31, 2011 for: (a) each incumbent Director and the nominee for Director; (b) each named Executive Officer of the Company identified in the Summary Compensation Table; and (c) the Directors and Executive Officers as a group. Except as otherwise noted, the named individuals or family members had sole voting and investment power with respect to such securities.

D i r e c t o r s a n d E x e c u t i v e O f f i c e r s	Amount and Nature of *Beneficial Ownership	Percent of Common Class	
William E. Aubrey II	25,000	.80	%
Alan W. Dakey	3,738	.12	%(1)
Debra E. Dissinger	14,403	.46	%(2)
Joseph M. Ferretti	2,795	.09	%(3)
Ronald G. Kukuchka	21,377	.68	%(4)
Richard S. Lochen, Jr.	9,065	.29	%(5)
Scott A. Seasock	6,975	.22	%(6)
George H. Stover, Jr.	77,499	2.48	%(7)
Earle A. Wootton	21,000	.67	%
Joseph T. Wright, Jr.	24,765	.79	%(8)
All Directors and Executive Officers as a Group	206,617	6.60	%

*The securities “beneficially owned” by an individual are determined in accordance with the definitions of “beneficial ownership” set forth in the general rules and regulations of the Securities and Exchange Commission and may include securities owned by or for the individual’s spouse, minor children and any other relative who has the same home, as well as securities that the individual has or shares voting or investment power, or has the right to acquire beneficial ownership within sixty (60) days after December 31, 2011. Beneficial ownership may be disclaimed as to certain of the securities. All numbers have been rounded to the nearest whole number.

- (1) Includes 368 shares under the Company’s Employee Stock Ownership Plan (“ESOP”) which have been allocated to Mr. Dakey’s account.
- (2) Includes 12,920 shares under the Company’s Employee Stock Ownership Plan (“ESOP”) which have been allocated to Ms. Dissinger’s account and option grants of 450 shares. All other shares are held jointly with spouse.
- (3) Includes 2,162 shares under the Company’s Employee Stock Ownership Plan (“ESOP”) which have been allocated to Mr. Ferretti’s account, 131 shares held with minor child and option grants of 450 shares.
- (4) Includes 15,685 shares held jointly with spouse and option grants of 300 shares.
- (5) Includes 1,038 shares under the Company’s Employee Stock Ownership Plan (“ESOP”) which have been allocated to Mr. Lochen’s account, option grants of 900 shares, 830 shares held in an IRA and 220 shares held jointly with minor children. All other shares are held jointly with spouse.
- (6) Includes 3,050 shares held in an IRA.
- (7) Includes option grants of 1,500 shares. All other shares are held jointly with spouse.
- (8) Includes 951 shares held with minor child.

ELECTION OF DIRECTORS

The By-laws of the Company provide that the Company’s business shall be managed by a Board of Directors of not less than five, and not more than twenty-five persons. The Board of Directors of the Company, as provided in the Company’s By-laws, is divided into three Classes: Class I, Class II, and Class III, with each class being as nearly equal in number as possible. The Board of Directors of the Company presently consists of seven members. The term of office of the Class III Directors elected at the Meeting will expire on the date of the Company’s Annual Meeting of Shareholders in 2015. The term of each of the continuing Directors in Class II and Class I will expire on the date of the Company’s Annual Meeting of Shareholders in 2013 and 2014, respectively.

The person(s) named in the enclosed proxy intends to vote such proxy FOR the election of the nominees named below, unless you indicate that your vote should be withheld. The nominees elected as Directors will continue in office until the 2015 Annual Meeting and until their successors have been duly elected and qualified, or until the earliest of his death, resignation or retirement.

The Board of Directors has proposed the following nominees for election as Class III Directors at the Annual Meeting.

NOMINEES FOR TERMS EXPIRING AT THE ANNUAL MEETING TO BE HELD IN THE YEAR 2015:

ALAN W. DAKEY
EARLE A. WOOTTON

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE ABOVE-NAMED
NOMINEES FOR ELECTION AS DIRECTOR.

The Company expects each nominee for election as a Director at the Annual Meeting to be able to serve if elected. If the nominee is unable to serve if elected, proxies may be voted for a substitute nominee selected by the Board of Directors.

The following provides information, as of the date of this proxy statement, about each nominee and other Directors whose terms of office will continue after the Annual Meeting. The information presented includes information each director has given us about his age, all positions he holds, and his principal occupation for the past five years. The following also includes certain individual qualifications and skills that contribute to the Board's effectiveness as a whole. We believe that all of our Directors have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business insight and an ability to exercise sound judgment, as well as a commitment to service. Information about the share ownership of the nominees and other Directors can be found on page 10.

ALAN W. DAKEY, Director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2009. President/Chief Executive Officer of the Company and the Bank since 2009. Member of the Following Committees: Executive; Asset/Liability; Loan; and Human Resources/Marketing. Age: 60

The Board has determined that Mr. Dakey is qualified to be on the Board due to his 38 years of banking experience including titles as Chief Executive Officer, President, and Chairman of the Board. He also holds a MBA in Finance from The University of Scranton and a BS in Accounting from Bloomsburg University.

EARLE A. WOOTTON, Director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2010. Director of the Community Foundation of Susquehanna and Wyoming Counties and Former President of a group of commercial printing and publishing companies. Member of the Following Committees: Conklin/Binghamton Branch; Nominating/Governance; Asset/Liability; Loan; and Audit/Compliance. Age: 67

The Board has determined that Mr. Wootton is qualified to be on the Board due to his executive management skills acquired through being Chief Executive Officer of a printing company for 30 years. He also brings experience gained through being a previous director of a national bank for 18 years, and being the founder and chairman of a community foundation.

CLASS II DIRECTORS TERMS EXPIRING IN 2013

WILLIAM E. AUBREY II, Director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2006. President and Chief Executive Officer of Gertrude Hawk Chocolates since 2003. Chairman of the Board since 2008. Member of the

Following Committees: Glenburn Branch; Executive; Loan; Human Resources/Marketing; Compensation; and Nominating/Governance. Age: 49

The Board has determined that Mr. Aubrey is qualified to be on the Board due to his executive management experience gained by being President of two companies. He also brings knowledge gained by serving on several community boards and an education background in the finance area – MBA and CPA.

JOSEPH T. WRIGHT, JR., Director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2009. Attorney at Law since 1980. Member of the Following Committees: Susquehanna Branch; Compensation; Asset/Liability; and Audit/Compliance. Age: 56

The Board has determined that Mr. Wright is qualified to be on the Board due to his experience and knowledge gained while being a practicing attorney for over thirty years with involvement in numerous financially complex matters related to disputes involving shareholders, employment matters, contracts, valuation issues, real estate matters, and general business issues related to risk assessment.

CLASS I DIRECTORS TERMS EXPIRING IN 2014

GEORGE H. STOVER, JR., Director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 1992. Real Estate Appraiser since 1972. Member of the Following Committees: Hallstead/Montrose Branch; Executive; Nominating/Governance; Loan; and Human Resources/Marketing. Age: 65

The Board has determined that Mr. Stover is qualified to be on the Board due to his leadership skills obtained from successfully operating his own insurance and real estate business for 40 years. In addition, Mr. Stover has expertise of real estate values due to being an experienced real estate appraiser.

RICHARD S. LOCHEN, JR., Director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2003. Certified Public Accountant since 1995. Former President/Chief Executive Officer of the Company and the Bank and Former Chief Administrative Officer of the Company and the Bank. Member of the Following Committees: Hop Bottom/Nicholson Branch; Executive; Compensation; Asset/Liability; and Human Resources/Marketing. Age: 48

The Board has determined that Mr. Lochen is qualified to be on the Board due to his knowledge of auditing publically-traded financial institutions that he gained during his career as a CPA, which included assisting in preparation of annual and quarterly filings with the SEC. He also brings executive leadership experience and understanding of the operations of the Company gained from his serving as Chief Executive Officer of the Company and Bank for four years.

RONALD G. KUKUCHKA, Director of Peoples Financial Services Corp., and Peoples Neighborhood Bank since 2007. President of Ace Robbins, Inc., since 1982. Member of the Following Committees: Tunkhannock/Meshoppen Branch; Asset/Liability; Loan; Human Resources/Marketing; and Audit/Compliance. Age: 58

The Board has determined that Mr. Kukuchka is qualified to be on the Board due to his leaderships skills gained from owning a successful petroleum company in our market area for over 25 years. He also brings experience gained by serving as director for the Pennsylvania Marketers & Convenience Store Association, Director of the Tunkhannock Fireman's Relief Association, and from being trustee of the Roy Piper Charitable Trust.

COMPENSATION DISCUSSION AND ANALYSIS

OVERVIEW OF OBJECTIVES

The executive compensation program of Peoples Financial Services Corp. (the "Company") is designed to provide a competitive based salary as well as provide incentives to our executive officers to effectively lead and manage our company and its growth strategy. Decisions regarding executive compensation are determined by our Compensation Committee with the approval of the Board of Directors.

The program is designed to support annual and long-term company goals that create consistent profitable growth while providing long-term value to our shareholders. The objectives of the Company's executive compensation plan are to: (1) attract, motivate and retain highly qualified executives; (2) link total compensation to both individual performance and the performance of the bank and holding company; (3) appropriately balance short-term and long-term financial objectives, build shareholder value and reward individual, team and Company performances, and (4) align executive and shareholder interests by including equity as part of total compensation.

In this compensation discussion and analysis, our Chief Executive Officer, Chief Operating Officer/Chief Risk Officer, Chief Financial Officer, and Chief Credit Officer are referred to collectively as our "Named Executive Officers."

During the year ended December 31, 2011, we compensated our Named Executive Officers with a combination of base salary, cash bonus, equity compensation-through our Employee Stock Ownership Plan ("ESOP"), and benefit plans and perquisites which the Committee believed were comparable to other financial institutions of similar size in our region.

COMPONENTS OF THE COMPENSATION PROGRAM

The Company's executive compensation includes three key elements: base salary, annual cash incentives and benefit plans.

BASE SALARY

Base salary is the basic element of the executive compensation program and the foundation for setting incentive compensation target awards. The Committee determines the range of base salary to offer to a new executive by evaluating (1) the duties, complexities and responsibilities of the position; (2) the level of experience required, and (3) compensation for positions having similar scope and accountability as the Bank's peers. The Committee uses a peer group of banks with asset sizes of \$500 million to \$1 billion in total assets and located in the Northeast Pennsylvania region and sets initial compensation between 83 and 106 percent of the median salary for comparable positions within the peer group.

Each year, the Compensation Committee reviews each Named Executive Officers' individual performance, length and nature of experience and competency, and the potential for advancement in determining the amount of pay adjustments to recommend to the Board of Directors. The Chief Executive Officer's and Chief Financial Officer's salary increased at the percentage required by their employment agreements.

ANNUAL CASH INCENTIVES

In January 2008, the Compensation Committee recommended to the Board of Directors an Incentive Compensation Plan which was adopted by the Company's Directors. Incentive Compensation represents the "at risk" portion of an executive's pay. The Compensation Committee sets corporate goals for the Named Executive Officers to achieve in order to qualify for a cash bonus. Measurements and weighting for 2011 contained both Economic Profit Targets and Individual Strategic Targets.

Economic Profit Targets based on achieving budgeted goals included: Net Income weighted at 50%, Total Average Assets at 5%, Return on Average Assets at 5%, Return on Average Equity at 5%, and Efficiency Ratio at 5%. The net income factor is determined on a sliding scale allowing for the bonus calculation to be less than 50% for a graduated variance of under budget performance, and to be more than 50% on a graduated scale for being over budget. The Company believes financial goals create a strong and objective link between executive compensation and shareholder value creation. The Corporation uses economic profit as the measurement for financial goal achievement because it promotes the simultaneous optimization of growth, earnings and capital efficiency. The Company believes economic profit is the best indicator of long-term shareholder value creation and correlates well with long-term stock price appreciation.

The non-economic component for the cash bonus, which was weighted at 30%, was based on Individual Strategic Goals. Strategic plans were outlined for each officer and attainment of the target was based on the execution of the related department's strategic goals. The Board sets separate goals to align executives' interests with the financial performance of either the Company or their individual area of responsibility.

If the executive did not meet the established goals, the Compensation Committee had the discretion to award the bonus based upon their best judgment and other considerations. In order to ensure that the risks associated with the cash incentive plan are minimized, each Named Executive can only earn up to a percentage of base salary, as determined by the Compensation Committee, based upon the specific position held by the Named Executive Officer and the responsibilities associated with such position. Additionally, in order to minimize any risk associated with the Cash Incentive Plan, the Named Executive Officers, effective with the 2010 bonuses, are required to sign a clawback agreement, as discussed in detail below.

CLAWBACK AGREEMENT

In order to participate in the Cash Incentive Plan, all executives are required to sign a clawback agreement. The clawback agreement allows the Company to recover any overpayment of the cash incentive in the event that the Company is required to restate its financial statements because of a material financial reporting violation or an executive's misconduct or fraudulent activity. The policy applies to any current or former executive officer who received a bonus under the plan during the three-year period preceding the date on which the restatement is required. Nevertheless, the three-year period does not extend before the year 2010.

BENEFITS:

ESOP

The Company designed an ESOP as a long-term incentive to focus executives on long-term value creation and to provide balance to the annual incentives. The ESOP covers substantially all employees who meet the eligibility requirements and was intended to reward all employees, including the Named Executive Officers, based upon the Company's long-term success as measured by shareholder return.

401(K) AND PROFIT SHARING PLAN

The Bank also maintains a profit sharing plan under the provisions of Section 401(k) of the Internal Revenue Code in an effort to provide all employees with a means by which they can save for retirement and also to provide tax-deferred compensation, not to exceed the amount allowed under the Internal Revenue Code, as a reward for saving for retirement.

HEALTH INSURANCE

Named Executive Officers participate in the Company's other benefit plans on the same terms as other employees. These plans include medical, life insurance and flex spending account benefits and are standard in the industry.

SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

In 2004, the Company provided a supplemental employee retirement plan ("SERP") to Ms. Dissinger as appreciation for her years of service and to incent her to continue to serve the Bank. Additionally, in exchange for the SERP, Ms. Dissinger has signed a restrictive covenant which prohibits her from entering into any business relationships which compete with the operation of the Bank. In 2011, the Company provided supplemental employee retirement plans ("SERP") to Messrs. Dakey and Ferretti to incent them to continue to serve the Bank. In exchange for the SERP, Mr. Dakey and Mr. Ferretti have signed a restrictive covenant which prohibits them from entering into any business relationships which competes with the bank for a one year period. Participation in the SERP is provided to assure the overall competitiveness of the Company's executive compensation program and provide a retention incentive. The Compensation Committee is considering offering SERP agreements to other key management, but has not executed any other agreements at this time.

PERQUISITES

The Compensation Committee regularly reviews People's perquisites and believes they are appropriate and modest when compared to peer companies and are necessary to attract and retain high-caliber talent. The Bank provides a vehicle allowance to its Chief Executive Officer, Chief Financial Officer, and Chief Credit Officer as they are required to entertain business clients. The Committee also believes that country clubs can serve as appropriate forums for building client relationships and for community interaction. The Bank reimburses monthly membership expenses for Messrs. Dakey and Ferretti based on demonstrable business requirements, which are approved monthly and reviewed annually.

IMPACT OF PRIOR COMPENSATION IN SETTING ELEMENTS OF COMPENSATION

Prior compensation of the Named Executive Officers does not impact how the Company sets elements of current compensation. The Compensation Committee believes that current total compensation must be sufficient to attract, motivate and retain top management. The Compensation Committee analyzes outstanding option grants, outstanding plan awards and overall Company stock ownership for each of the Named Executive Officers to ensure that future change-in-control agreements and other benefits provide appropriate and relevant incentives to the executives.

THE ROLE OF MANAGEMENT IN DETERMINING COMPENSATION

The Chief Executive Officer sets performance goals for the other Named Executive Officers. The Board of Directors sets performance goals for the Chief Executive Officer. The Chief Executive Officer reviews each of the other Named Executive Officer's yearly performance and discusses the performance review with and makes a recommendation on

increases to base salary to the Compensation Committee. The Compensation Committee then presents its recommendations for increases in base salary to the Board of Directors for all Named Executive Officers. No Named Executive Officer is present when the Compensation Committee or the Board of Directors discusses his/her respective compensation levels.

THE ROLE OF THE COMPENSATION COMMITTEE

The Compensation Committee is responsible for recommending compensation policies to the Board for approval, as well as developing and implementing the compensation programs for the Named Executive Officers and other key members. Key items pertaining to executive compensation such as base salary increases, Incentive Compensation Plan, and the offering of SERP agreements are submitted to the Board for approval following the review and recommendation of the Compensation Committee. The Chief Executive Officer consults with the Compensation Committee in determining the specific individual Strategic Goals outlined in the Incentive Compensation Plan, but does not participate in discussions on his own compensation.

Operating within the framework of duties and responsibilities established by the Board, the Compensation Committee's role is to assure the Company's (1) compensation strategy is aligned with the long-term interests of the shareholders and members; (2) compensation structure is fair and reasonable; and (3) compensation reflects both corporate and individual performance.

COMPENSATION COMMITTEE CONSULTANTS

The Compensation Committee's Charter provides that any outside compensation consultants who offer advice on compensation levels and benefits for the Chief Executive Officer or other senior executives will be retained by the Compensation Committee, report to the Chair of the Compensation Committee and submit fee statements for approval to the Chair of the Compensation Committee. The consultant's findings are reported directly to the Compensation Committee. Any other consulting services by such compensation consultants for the Company must be approved in advance by the Compensation Committee chair. A consultant was not used by the Committee in 2011.

ACCOUNTING AND TAX TREATMENTS

All elements of compensation, including salaries, generate charges to earnings under generally accepted accounting principles (GAAP). We generally do not adjust compensation based on accounting factors, but we consider the tax effect of various types of compensation. Code Section 409A implemented tax rules applicable to nonqualified deferred compensation arrangements, and steps to comply with such rules have been taken to the extent applicable.

MATERIAL DIFFERENCE IN COMPENSATION

The material difference in compensation between the Named Executive Officers is the amount of base salary paid to each. As base salary is determined by reference to the position of the individual, the amount of experience of the individual, and the performance of the individual, the Compensation Committee believes the differences are warranted. The Compensation Committee is discussing whether it is in the best interest of the Company to provide SERP agreements to other Named Executive Officers.

BENCHMARKING

Periodically, the compensation committee measures the Company's senior management compensation levels with comparable levels in industry benchmark studies and peer group data. The bank participates in a survey provided by L.R. Webber Associates that benchmarks salary and benefits from Pennsylvania financial institutions who participated in the survey. Survey results are reported by bank asset size and geographic region. We use the survey data to compare our executive positions to those at other banking institutions with total asset size and geography similar to ours. The Board of Directors also considers salary levels for comparable positions in industries other than the financial services industry.

COMPANY STOCK OWNERSHIP

While we believe that it is important that our Executive Officers and Directors own shares of the Company's common stock, we do not have equity or security ownership requirements for Executive Officers or Directors.

EXECUTIVE AGREEMENTS

In 2011, the Company was a party to employment agreements with the Chief Executive Officer, Chief Credit Officer and Chief Financial Officer. The Officer's employment agreements provide payment upon a termination without cause

or a termination for “good reason” in consideration for a noncompetition provision which restricts their ability to compete with the Company in certain events. Termination without cause and termination for “good reason” provisions are standard in the industry for executives to give the executive some security that in the event he is terminated without cause or he suffers an adverse employment action, that he will receive some compensation during the transition phase.

The Chief Operations Officer/Chief Risk Officer has a Change in Control Agreement. All of these agreements are designed to be part of a competitive compensation package, thereby aiding in attracting and retaining top quality executives. The agreements are designed to (1) assure the continuity of executive management and (2) ensure executive management is able to objectively evaluate any change in control proposal and act in the best interests of shareholders during a possible acquisition, merger or combination.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed this CD&A, which begins on page –12 of this Proxy Statement, with management and based on such review and discussion, the Compensation Committee recommended to the Board that this CD&A be included in this Proxy Statement.

COMPENSATION COMMITTEE

Joseph T. Wright, Jr., Chairman

William E. Aubrey II

Richard S. Lochen, Jr.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During Fiscal 2011, the Compensation Committee was comprised of at least three members, two of which are independent directors. An "independent" director is a director who is independent, as determined by the Board, within the meaning of applicable stock exchange listing standards. Additionally, at least two members of the Committee must qualify as "non-employee directors" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and as "outside directors" for purposes of Section 162(m) of the Internal Revenue Code. There are no interlocking Board memberships between Officers of the Company and any member of the Compensation Committee.

COMPENSATION

The Compensation Committee makes its recommendations on compensation policies and practices after thoughtful deliberation of the effects such practices may have on employees as they relate to risk management and risk-taking incentives and if such policies and practices could create risks that are "reasonably likely to have a material adverse effect" on the Company. The risk-reward structure of the Company is based primarily on Company goals rather than individual goals for the purpose of aligning individual rewards with the interest of the shareholders and encouraging teamwork and as such, the Company has determined that all of its compensation policies and practices, including those for employees other than the Named Executive Officers, are not reasonably likely to have a material adverse effect on the Company.

SUMMARY COMPENSATION TABLE

The table below sets forth information with respect to annual compensation awarded to, earned by, or paid to each of the Chief Executive Officer, the Chief Financial Officer, and to the other Named Executive Officers to the extent such person's total compensation exceeded \$100,000 for the years ended December 31, 2011, 2010 and 2009.

NAME AND PRINCIPLE POSITION	YEAR	SALARY (\$)	BONUS (\$)	STOCK AWARDS (\$)	OPTION AWARDS (\$)	CASH BONUS (\$)	CHANGE IN PENSION NON-EQUITY VALUE INCENTIVE AND PLAN NONQUALIFIED COMPENSATION DEFERRED ALL OTHER				TOTAL (\$)
							EARNINGS (\$)	COMPENSATION (\$)	(\$)	(\$)	
Alan W. Dakey	2011	190,800	0	0	0	64,099	19,700	37,390	(2)		311,989
President/Chief Executive Officer	2010	180,000	0	0	0	49,500	0	28,206	(2)		257,706
	2009	13,846	0	0	0	0	0	1,500	(2)		15,346
Scott A. Seasock	2011	136,077	0	0	0	28,928	0	8,625	(3)		173,630

Senior
VP/Chief
Financial
Officer

D e b r a E .

Dissinger	2011	136,000	0	0	0	27,795	10,538	12,677	(4)	187,010
Executive VP	2010	128,000	0	0	0	22,464	10,036	10,357	(4)	170,857
Chief Oper. Officer/ Chief Risk Officer	2009	117,000	0	0	0	0	9,558	9,360	(4)	135,918

J o s e p h M .

Ferretti	2011	130,000	0	0	0	25,838	8,810	23,321	(5)	187,969
Senior VP	2010	122,000	0	0	0	20,385	0	10,189	(5)	152,574
Chief Credit Officer	2009	106,000	0	0	0	2,955	0	8,869	(5)	117,824

- (1) In January 2009, the Board approved the compensation plan which represents the at-risk portion of executive pay.
- (2) Includes director's fees of \$4,500, \$6,000 and \$500; automobile allowance of \$12,000, \$12,000 and \$1,000; ESOP contributions of \$12,015, \$9,609 and \$0; 401(k) plan contributions of \$5,927, \$415 and \$0; health and wellness program incentives of \$500, \$182 and \$0 and country club dues of \$2,448, \$0, and \$0 in 2011, 2010 and 2009, respectively.
- (3) Includes automobile allowance of \$8,625.
- (4) Includes ESOP contributions of \$7,923, \$6,406, and \$5,850; 401(k) plan contributions of \$4,754, \$3,840 and \$3,510; and health and wellness program incentives of \$0, \$111 and \$0 in 2011, 2010 and 2009, respectively.
- (5) Includes automobile allowance of \$7,500, \$0 and \$0; ESOP contributions of \$7,519, \$6,257 and \$5,543; 401(k) plan contributions of \$4,512, \$3,749 and \$3,326; health and wellness program incentives of \$183, \$0 and \$0; and country club dues of \$3,607, \$0 and \$0 in 2011, 2010 and 2009, respectively.

Non-equity Incentive Plan - In January 2008, the Compensation Committee recommended to the Board of Directors an Incentive Compensation Plan which was approved by the Company's Directors. The Compensation Committee sets corporate goals for the Named Executive Officers to achieve in order to qualify for a cash bonus. Cash bonus awards to the Named Executive Officers for 2011 are structured as follows: President/Chief Executive Officer – 25% of base salary; CRO/COO – 15% of base salary; CFO – 15% of base salary, and CCO – 15% of base salary. Measurements for 2011 were as follows: a minimum of 70% of the targets were tied to economic profit targets with the remaining 30% based on execution of the related department strategic goals. Net income was weighted on a graduated scale with a 50% weight if the budget target was reached and then calculated on a sliding scale of additional bonus credits for additional revenue or a decrease of bonus credits for under-goal revenue on the same sliding scale. The four other economic targets were compared to budget- total average assets, if at goal or above, was valued at 5% maximum of base salary, return on average assets (ROAA) also at 5%, return on average equity (ROAE) also at 5%, and the efficiency ratio also at 5%. The non-economic component for the cash bonus, which made up the last 30%, was based on strategic goals. Strategic plans outlined for each officer were payable based on the execution of the related department's strategic goals. The results for 2011 were that each executive officer received 90% in bonus credits for exceeding the budgeted net income goal, another 20% for reaching each of the other four economic profit targets valued at 5% each, and the last component, which was based on completion of each officer's personal strategic goals, ranged between 22% and 30% for the three Named Executive Officers. This resulted in bonus payments of: Chief Executive Officer, Alan Dakey, received 134% of 25% of his base pay or \$64,099; Chief Operations Officer/Chief Risk Officer, Debra Dissinger, received 136% of 15% of her base pay or \$27,795; Chief Credit Officer, Joseph Ferretti, received 142% of 15% of his base pay or \$25,838 and Chief Financial Officer, Scott Seasock, received 142% of 15% of his base pay or \$28,928.

ESOP - Contributions to the plan are at the discretion of the Board of Directors. Employer contributions are allocated to participant accounts based on their percentage of total base and short-term incentive compensation for the plan year. The amounts contributed to the plan are the same percentage of compensation for the Named Executive Officers as for all employees. In 2011, \$12,015 was contributed to Mr. Dakey's account, \$7,923 was contributed to Ms. Dissinger account, and \$7,519 was contributed to Mr. Ferretti's account. Mr. Seasock was not eligible in 2011. During 2011, total contributions to the plan charged as an expense to operations were \$221,821. Under the terms of the ESOP, the trustee must invest assets primarily in common stock of the Company. Under the ESOP, employee participants are entitled to voting rights attributable to stock allocated to their accounts.

401(k) - The plan covers substantially all employees who have completed one year of service. Contributions to the plan by the Bank equal 50% of the employee contribution up to a maximum of 6% of annual salary. Mr. Dakey received \$5,927, Ms. Dissinger received \$4,754, and Mr. Ferretti received \$4,512, in employer contributions in 2011. Mr. Seasock was not eligible in 2011. During 2011, total employer contributions to the plan charged as an expense to operations were \$113,276.

Supplemental Employee Retirement Plans – In 2004, the Company entered into a Supplemental Executive Retirement Plan with Debra Dissinger, Chief Operations Officers/Chief Risk Officer. The amount of the normal retirement benefit is \$20,000 per annum, paid to the executive for 15 years. On May 9, 2011, the Company entered into Supplemental Executive Retirement Plan agreements with Alan Dakey, Chief Executive Officer and Joseph Ferretti, Chief Credit Officer. The amount of the normal retirement benefit for Mr. Dakey is \$30,000 per annum paid to the executive for 10 years. Mr. Ferretti's benefit is based on his benefit percentage and his final pay.

Employment Agreements - On November 30, 2009, The Company entered into an employment agreement with Alan W. Dakey as President & Chief Executive Officer. In the event that Mr. Dakey's employment is involuntarily terminated by the Company without "cause" or the Executive resigns from employment for "good reason" and no change in control shall have occurred at the date of such termination or resignation, the Company shall pay (or

cause to be paid) to the executive in cash within twenty days following termination or resignation, an amount equal to 2.0 times the highest sum of the following: (1) his taxable federal compensation reported on Form W-2 during each of the immediately preceding three calendar years; and (2) all amounts excluded from such compensation during the relevant calendar year by reason of Section 4(d) Code Section 125, and Code Section 401(k). If Mr. Dakey is terminated after a change in control, he will be entitled to 2.99 times his base amount as determined under Section 280G. In addition, Executive shall be entitled to continuation of group health insurance benefits, at the same level enjoyed by Executive immediately preceding the event, for one year following termination of the Executive's employment. In exchange for receipt of the severance payment where no change in control has occurred, the Chief Executive Officer is prohibited for a period of one year from the date of termination, from entering into any relationship with any enterprise which is engaged in a business which competes with the Company. The Chief Executive Officer's employment agreement is automatically renewed, on an annual basis, for a period of three years.

On January 18, 2011, The Company entered into an employment agreement with Scott Seasock as Senior Vice President & Chief Financial Officer. In the event that Mr. Seasock's employment is involuntarily terminated by the Company without "cause" or the Executive resigns from employment for "good reason" and no change in control shall have occurred at the date of such termination or resignation, the Company shall pay (or cause to be paid) to the executive in cash within twenty days following termination or resignation, an amount equal to 2.0 times his Annual Base Salary. In addition, Mr. Seasock will be entitled to continuation of group insurance benefits, at the same level enjoyed by the Executive immediately preceding the termination for the earlier of two (2) years following termination of employment or until he secures benefits from another employer. If Mr. Seasock is terminated after a change in control, he will be entitled to 2.0 times his Annual Base Salary. In addition, Executive shall be entitled to continuation of group health insurance benefits, at the same level enjoyed by Executive immediately preceding the event, for two years following termination of the Executive's employment. In exchange for receipt of the severance payment where no change in control has occurred, the Chief Financial Officer is prohibited for a period of one year from the date of termination, from entering into any relationship with any enterprise which is engaged in a business which competes with the Company. The Chief Financial Officer's employment agreement is automatically renewed, on an annual basis, for a period of three years. Notwithstanding the preceding provisions, in the event the lump sum payment described, when added to all other amounts or benefits would result in the imposition of an excise tax under Code Section 4999, such lump sum shall be reduced to the extent necessary to avoid such imposition.

On May 9, 2011, The Company entered into an employment agreement with Joseph Ferretti as Senior Vice President & Chief Credit Officer. In the event that Mr. Ferretti's employment is involuntarily terminated by the Company without "cause" or the Executive resigns from employment for "good reason" and no change in control shall have occurred at the date of such termination or resignation, the Company shall pay (or cause to be paid) to the executive in cash within twenty days following termination or resignation, an amount equal to 2.0 times his Annual Base Salary. In addition, Mr. Ferretti will be entitled to continuation of group insurance benefits, at the same level enjoyed by the Executive immediately preceding the termination for the earlier of two (2) years following termination of employment or until he secures benefits from another employer. If Mr. Ferretti is terminated after a change in control, he will be entitled to 2.0 times his Annual Base Salary. In addition, Executive shall be entitled to continuation of group health insurance benefits, at the same level enjoyed by Executive immediately preceding the event, for two years following termination of the Executive's employment. In exchange for receipt of the severance payment where no change in control has occurred, the Chief Credit Officer is prohibited for a period of one year from the date of termination, from entering into any relationship with any enterprise which is engaged in a business which competes with the Company. The Chief Credit Officer's employment agreement is automatically renewed, on an annual basis, for a period of three years. Notwithstanding the preceding provisions, in the event the lump sum payment described, when added to all other amounts or benefits would result in the imposition of an excise tax under Code Section 4999, such lump sum shall be reduced to the extent necessary to avoid such imposition.

Change in Control Agreements - The Company also has entered into a change-in-control agreement with Ms. Dissinger. The agreement defines a change in control as having occurred (1) when any one person or a group acquires ownership of fifty percent or more of the total fair market value or total voting power of the Company; (2) any one person or a group acquires thirty-five percent or more of the total voting power of the Company; (3) a majority of the Company's board is replaced during any 12-month period by directors whose appointment was not endorsed by a majority of the current Board; or (4) any person or a group acquires assets from the Company or the Bank that have a total gross fair market value equal to or more than forty percent of the total gross fair market value of all assets of the Company.

The executive is entitled to certain benefits if, at any time within two years after the change in control, any of the following triggering events occurs: (1) employment is terminated by the Company for any reason other than “cause” or disability of the executive; or (2) employment is terminated by the executive for “good reason.” “Good reason” is defined as (1) assignment to the executive of duties substantially inconsistent with the executive’s position, authority or responsibilities, or any other substantial adverse changes in the executive’s position, including title, authority or responsibilities; (2) the Company’s failure to comply with any of the provisions of the agreement; (3) a required change of more than 50 miles in the executive’s principal place of work, except for travel reasonably required in performing the executive’s responsibilities; (4) a purported termination of the executive’s employment by the Company which is not permitted by the agreement; (5) the Company’s failure to require a successor company to assume the agreement; or (6) the executive’s good faith determination that the change in control resulted in the executive being substantially unable to carry out authorities or responsibilities attached to his or her position due to the change in control.

When a triggering event occurs following a change in control, the executive is entitled to two times the sum of the executive’s annual base salary. This change in control agreement is automatically renewed, on an annual basis, for a period of two years.

The Chief Executive Officer and other Executive Officers are entitled to receive reimbursement for any legal fees and expenses, plus interest thereon that may be incurred in enforcing or defending his or her agreement.

PAYMENTS UPON TERMINATION OF EMPLOYMENT

The following chart outlines the benefits payable to the Named Executive Officers upon a termination of employment and assumes that the termination of employment occurred on December 31, 2011:

Name	Termination Without “Cause”	Termination for “Good Reason”	Termination after a Change in Control
Alan W. Dakey	\$ 495,126 (1)	\$ 495,126 (1)	\$ 851,763 (2)
Debra E. Dissinger	\$ 0	\$ 0	\$ 292,000 (3)
Joseph M. Ferretti	\$ 283,690 (4)	\$ 283,690 (4)	\$ 987,991 (5)
Scott A. Seasock	\$ 287,034	\$ 287,034	\$ 287,034

- (1) Mr. Dakey would receive \$475,426 under his Employment Agreement and \$19,700 under his SERP.
- (2) Mr. Dakey would be eligible for \$585,372 under his Employment Agreement and a lump sum payment of \$266,391 under his SERP.
- (3) Ms. Dissinger would receive \$272,000 under her Change in Control Agreement and \$20,000 under her SERP. Under the SERP agreement Ms. Dissinger would be eligible for the stated retirement benefit which is \$20,000 per year for 15 years.
- (4) Mr. Ferretti would receive \$274,880 under his Employment Agreement and \$8,810 under his SERP.
- (5) Mr. Ferretti would be eligible for \$274,880 under his Employment Agreement and a lump sum payment of \$718,111 under his SERP.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END DECEMBER 31, 2011

Name	Option Awards Equity Incentive Plan Awards:				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Unearned Options(#)	Option Exercise Price	Option Expiration Date
Debra E. Dissinger	150	0	0	\$ 27.50	6/1/2013
	150	0	0	\$ 34.10	11/12/2014
	150	0	0	\$ 30.75	10/3/2015
Joseph M. Ferretti	150	0	0	\$ 27.50	6/1/2013
	150	0	0	\$ 34.10	11/12/2014
	150	0	0	\$ 30.75	10/3/2015

OPTION EXERCISES AND STOCK VESTED TABLE

There were no Option Exercises in 2011.

PENSION BENEFITS

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Alan W. Dakey President/CEO	Executive Supplemental Retirement Plan	2	19,700	19,700
Debra E. Dissinger EVP/COO/CRO	Executive Supplemental Retirement Plan	37	78,074	10,538
Joseph M. Ferretti SVP/CCO	Executive Supplemental Retirement Plan	15	8,810	8,810

RELATIONSHIPS AND OTHER RELATED TRANSACTIONS

Several of the Company's Directors, Officers, their immediate family members and companies with which they are associated, are customers of the Bank. During 2011, many of them had banking transactions with the Bank, in the ordinary course of the Bank's business, and intend to do so in the future. The Bank has a formal process with respect to the review and approval of loans extended by Peoples Neighborhood Bank to related persons. In 2006, the Bank adopted written procedures to review and approve transactions with related persons. In accordance with these procedures all transactions with related persons must be approved or ratified by disinterested members of Board of Directors. All loans and commitments to loan included in such transactions were made under substantially the same terms, including interest rates, collateral, and repayment terms, as those prevailing at the time for comparable transactions with other persons not related to the lender and, in the opinion of the Bank's Management, do not involve more than the normal risk of collection or present other unfavorable features.

REPORT OF THE AUDIT COMMITTEE

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the report by reference therein.

The members of the Bank's Audit Committee were Earle A. Wootton, Joseph T. Wright, Jr. and Ronald G. Kukuchka. The Committee met four times during fiscal 2011. The Committee's meetings include, whenever appropriate, executive sessions with the Company's independent auditors and with the Company's internal auditors, in each case without the presence of the Company's management. In addition, the Committee reviewed major initiatives and programs aimed at strengthening the effectiveness of the Company's internal control structure. As part of this process, the Committee continued to monitor the scope and adequacy of the Company's internal auditing program, reviewing staffing levels and steps taken to implement recommended improvements in internal procedures and controls. A copy of the Audit Committee Charter is available on the Bank's website.

www.peoplesnatbank.com/investors.

Independent Auditor Fees The Sarbanes-Oxley Act of 2002 and the auditor independence rules of the Securities and Exchange Commission require all public accounting firms which audit issuers to obtain pre-approval from their respective Audit Committees in order to provide professional services without impairing independence.

Preapproval The Audit Committee has adopted policies and procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by the independent registered public accounting firm before that firm is retained for such services. The pre-approval policies and procedures are as follows:

- Any audit or non-audit service to be provided to the Company by the independent registered public accounting firm must be submitted to the Audit Committee for review and approval. The proposed services are submitted to the Audit Committee with a description of the services to be performed, fees to be charged, and affirmation that the services are not prohibited under Section 201 of the Sarbanes-Oxley Act of 2002.
- The Audit Committee, in its sole discretion, then approves or disapproves the proposed services and documents such approval, if given, by signing the engagement letter.

ParenteBeard LLC has previously issued engagement letters to or obtained formal approval from the Audit Committee for certain services. These services are summarized below.

The following fees were incurred for 2011 and 2010:

	2011	2010
Audit Fees (1)		\$103,780
Audit-Related Fees (2)		540
Tax Fees (3)		13,636
All other fees (4)		\$117,956

- (1) Includes professional services rendered for the audit of the Corporation's annual financial statements and internal control and review of financial statements included in Forms 10-Q, or services normally provided in connection with statutory and regulatory filings, including out-of-pocket expenses.
- (2) Assurance and related services reasonably related to the performance of the audit or review of financial statements.
- (3) Tax fees include the following: preparation of state and federal tax returns, and consultation on various other tax related matters.
- (4) Other fees include evaluation of a proposed transaction or other permitted, nonrecurring non-attest special projects.

These fees were approved in accordance with the Audit Committee's policy.

The Audit Committee of the Bank has reviewed the audited financial statements of the Company for the fiscal year ended December 31, 2011, and discussed them with management and the Company's independent accountants, ParenteBeard LLC. The Audit Committee also has discussed with the independent accountants the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee has received from the independent accountants the written disclosures and letter required by applicable requirements of the Public Company Oversight Board regarding the independent accountants' communication with the Audit Committee concerning independence, and the Audit Committee has discussed the accountants' independence from the Company and management with the accountants. Based on the review and discussions, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the fiscal year ended December 31, 2011, be included in the Company's Annual Report on Form 10-K for that fiscal year.

Representatives of ParenteBeard LLC, the accounting firm which examined the financial statements of the Company for the year ending December 31, 2011, are expected to be present at the Annual Meeting and will be afforded an opportunity to make a statement if they desire to do so and to respond to appropriate questions.

Members of the Audit Committee
Earle A. Wootton, Chairman

Joseph T. Wright, Jr.
Ronald G. Kukuchka

DIRECTORS AND EXECUTIVE OFFICERS

The Company's Board of Directors presently consists of seven members. The Company's Board of Directors is divided into three classes, one-third (as nearly equal in number as possible) of who are elected annually to serve for a term of three years.

The following information is set forth in the table entitled "Company's Board of Directors":

- name;
- age;
- term of office; and
- the principal occupation of such individuals during the past five years.

The Executive Officers are appointed to their respective offices annually. All Directors of the Company also serve as Directors of Peoples Neighborhood Bank. Unless otherwise indicated, the principal occupation listed for a person has been the person's occupation for at least the past five years. The table indicates the earliest year a person became an Officer or Director for Peoples Neighborhood Bank or the Company.

NAME	AGE	POSITION ON BOARD	YEAR ELECTED OR APPOINTED OFFICE	YEAR TERM EXPIRES	OCCUPATION
William E. Aubrey II	49	Chairman Director	2006	2013	President/Chief Executive Officer of Gertrude Hawk Chocolates
Alan W. Dakey	60	President/CEO Director	2009	2012	President/Chief Executive Officer of Bank and Company/ Former President/CEO/Director of Mid Penn Bancorp, Inc.
Ronald G. Kukuchka	58	Director	2007	2014	President of Ace Robbins, Inc.
Richard S. Lochen, Jr.	48	Director	2003	2014	Certified Public Accountant/ Former Chief Administrative Officer of Bank and Company/Former President/Chief Executive Officer of Bank and Company

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George H. Stover, Jr.	65	Director	1992	2014	Real Estate Appraiser
Earle A. Wootton	67	Director	2010	2012	Director of the Community Foundation of Susquehanna and Wyoming Counties/ Former President of a Group of Commercial Printing and Publishing Companies
Joseph T. Wright, Jr.	56	Director	2009	2013	Attorney at Law
Debra E. Dissinger	57	Secretary	1990	N/A	Executive Vice President/Chief Operations Officer/Chief Risk Officer of the Bank
Joseph M. Ferretti	42	N/A	1997	N/A	Senior Vice President/Chief Credit Officer of the Bank
Scott A. Seasock	54	N/A	2011	N/A	Senior Vice President/Chief Financial Officer of the Bank/Former Chief Financial Officer of Community Bank and Trust

There are no family relationships among any of the Executive Officers or Directors of the Company. Executive Officers of Peoples Neighborhood Bank are elected by the Board of Directors on an annual basis and serve at the discretion of the Board of Directors.

OTHER MATTERS THAT MAY COME BEFORE THE ANNUAL MEETING

Management knows of no business other than as described previously that is planned to be brought before the Meeting. Should any other matters arise, however, the person(s) named on the enclosed proxy will vote in accordance with the recommendation of the Board of Directors, or in the absence of such a recommendation, in accordance with his/her best judgment.

