

PIPEX PHARMACEUTICALS, INC.  
Form 10QSB  
November 14, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-QSB**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2007**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission File Number: 333-139354**

**PIPEX PHARMACEUTICALS, INC.**

*(Name of small business issuer in its charter)*

**Delaware**  
*(State or other jurisdiction of incorporation or organization)*  
**3930 Varsity Drive**  
**Ann Arbor, MI**  
*(Address of principal executive offices)*

**13-3808303**  
*(IRS Employer Identification Number)*  
**48108**  
*(Zip Code)*

**Registrant's telephone number, including area code:**  
**(734) 332-7800**

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State issuer's revenues for its most recent fiscal year: \$0

As of November 7, 2007, the issuer had 19,109,090 shares of common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes  No

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## PIPEX PHARMACEUTICALS, INC.

FORM 10-QSB  
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## PART I.—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Pipex Pharmaceuticals, Inc. and Subsidiaries  
(A Development Stage Company)Consolidated Balance Sheet  
September 30, 2007  
(Unaudited)

## Assets

<b>Current Assets:</b>	
Cash	\$ 7,352,328
Prepaid expenses	16,330
	<u>                    </u>
<b>Total Current Assets</b>	<b>7,368,658</b>
	<u>                    </u>
<b>Property and Equipment, net of accumulated depreciation of \$141,577</b>	<b>1,931,959</b>
<b>Deposits and other assets</b>	<b>17,534</b>
	<u>                    </u>
<b>Total Assets</b>	<b>\$ 9,318,151</b>
	<u>                    </u>

## Liabilities and Stockholders' Equity

<b>Current Liabilities:</b>	
Accounts payable	\$ 729,646
Accrued liabilities	30,000
Note payable	400,000
	<u>                    </u>
<b>Total Current Liabilities</b>	<b>1,159,646</b>
	<u>                    </u>
<b>Long Term Liabilities:</b>	
Note payable, less current portion above	600,000
	<u>                    </u>
<b>Total Liabilities</b>	<b>1,759,646</b>
	<u>                    </u>
<b>Commitments (See Note 5)</b>	
<b>Stockholders' Equity</b>	
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, none issued and outstanding	—
Common stock, \$0.001 par value; 100,000,000 shares authorized, 17,150,893 shares issued and outstanding	17,150
Additional paid-in capital	35,458,518
Deficit accumulated during the development stage	(27,917,163)
	<u>                    </u>
<b>Total Stockholders' Equity</b>	<b>7,558,505</b>
	<u>                    </u>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 9,318,151</b>
	<u>                    </u>

See accompanying notes to consolidated financial statements



**Pipex Pharmaceuticals, Inc. and Subsidiaries**  
**(A Development Stage Company)**

**Consolidated Statements of Operations**  
**(Unaudited)**

	For the three months ended September 30,		For the nine months ended September 30,		For the Period from January 8, 2001 (Inception) to September 30, 2007
	2007	2006	2007	2006	
<b>Operating Expenses:</b>					
Research and development	1,573,610	541,467	4,069,782	1,277,722	8,902,851
General and administrative	599,388	216,133	2,852,126	711,567	5,885,218
<b>Total Operating Expenses</b>	<b>2,172,998</b>	<b>757,600</b>	<b>6,921,908</b>	<b>1,989,289</b>	<b>14,788,069</b>
<b>Loss from Operations</b>	<b>(2,172,998)</b>	<b>(757,600)</b>	<b>(6,921,908)</b>	<b>(1,989,289)</b>	<b>(14,788,069)</b>
<b>Other Income (Expense):</b>					
Interest income	66,041	1	218,298	1	262,880
Interest expense	(13,985)	—	(29,270)	—	(29,270)
Other expense	—	—	—	—	(1,733)
<b>Total Other Income, net</b>	<b>52,056</b>	<b>1</b>	<b>189,028</b>	<b>1</b>	<b>231,877</b>
<b>Net Loss</b>	<b>\$ (2,120,942)</b>	<b>\$ (757,599)</b>	<b>\$ (6,732,880)</b>	<b>\$ (1,989,288)</b>	<b>\$ (14,556,192)</b>
<b>Less: Preferred stock dividend—subsidiary</b>	—	—	—	(190,250)	(951,250)
<b>Less: Merger dividend</b>	—	—	(12,409,722)	—	(12,409,722)
<b>Net Loss Applicable to Common Shareholders</b>	<b>\$ (2,120,942)</b>	<b>\$ (757,599)</b>	<b>\$ (19,142,602)</b>	<b>\$ (2,179,538)</b>	<b>\$ (27,917,164)</b>
<b>Net Loss Per Share—Basic and Diluted</b>	<b>\$ (0.12)</b>	<b>\$ (0.50)</b>	<b>\$ (1.12)</b>	<b>\$ (1.43)</b>	<b>\$ (7.75)</b>
<b>Weighted average number of shares outstanding during the period—basic and diluted</b>	<b>17,110,581</b>	<b>1,527,137</b>	<b>17,042,690</b>	<b>1,527,137</b>	<b>3,600,572</b>

See accompanying notes to consolidated financial statements

**Pipex Pharmaceuticals, Inc. and Subsidiaries**  
**(A Development Stage Company)**

**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	For the nine months ended September 30,		For the Period from January 8, 2001 (Inception) to September 30, 2007
	2007	2006	
<b>Cash Flows From Operating Activities:</b>			
Net loss	\$ (6,732,880)	\$ (1,989,288)	\$ (14,556,191)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	703,386	254,665	1,156,909
Stock-based consulting	641,926	—	1,129,642
Stock issued as compensation in acquisition of subsidiary	601,712	—	601,712
Salary capital contribution	275,124	—	275,124
Stock issued for license fee	—	—	388,691
Depreciation and Amortization	108,642	22,410	141,577
Changes in operating assets and liabilities:			
Prepaid expenses and other	9,372	—	(16,132)
Deposits and other assets	(17,534)	—	(17,534)
Accounts payable	189,525	(29,582)	729,645
Accrued liabilities	(158,899)	—	(158,899)
Accrued compensation	—	—	191,917
<b>Net Cash Used In Operating Activities</b>	<b>(4,379,626)</b>	<b>(1,741,795)</b>	<b>(10,133,539)</b>
<b>Cash Flows From Investing Activities:</b>			
Purchases of property and equipment	(1,743,313)	(30,633)	(1,789,146)
Cash paid to acquire shell in reverse merger	—	—	(665,000)
<b>Net Cash Used In Investing Activities</b>	<b>(1,743,313)</b>	<b>(30,633)</b>	<b>(2,454,146)</b>
<b>Cash Flows From Financing Activities:</b>			
Proceeds from loans payable—related party	—	1,100,349	3,210,338
Repayments of loans payable—related party	—	(20,000)	(220,000)
Proceeds from note payable	1,100,000	—	1,100,000
Repayments of note payable	(100,000)	—	(100,000)
Proceeds from issuance of preferred and common stock	—	—	1,150,590
Proceeds from sale of common stock and warrants in private placements	—	—	13,926,362
Cash paid as direct offering costs in private placements	—	—	(1,160,418)
Proceeds from warrant exercise	282,841	—	282,841
Proceeds from issuance of Series B, convertible preferred stock—subsidiary	—	—	1,902,500
Direct offering costs in connection with issuance of series B, convertible preferred stock—subsidiary	—	—	(152,200)

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<b>Net Cash Provided By Financing Activities</b>	1,282,841	1,080,349	19,940,013
<b>Net increase (decrease) in cash</b>	(4,840,098)	(692,079)	7,352,328
Cash at beginning of period	12,192,426	1,157,790	—
<b>Cash at end of period</b>	<b>\$ 7,352,328</b>	<b>\$ 465,711</b>	<b>\$ 7,352,328</b>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$ 29,270	\$ —	\$ 29,270
Cash paid for taxes	\$ —	\$ —	\$ —
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
EPI issued 825,000 shares of common stock to acquire a 91.61% ownership in CD4	\$ —	\$ —	\$ —
Solovax transferred 96.9% of its equity to Pipex	\$ —	\$ —	\$ —
EPI transferred 65.47% of its equity to Pipex	\$ —	\$ —	\$ —
Exchange of EPI preferred stock into Pipex common stock in acquisition	\$ 12,409,722	\$ —	\$ 12,409,722
Pipex acquired equipment in exchange for a loan with a related party	\$ —	\$ 284,390	\$ 284,390

See accompanying notes to consolidated financial statements

**Pipex Pharmaceuticals, Inc. and Subsidiaries  
(A Development Stage Company)**

**Notes to Consolidated Financial Statements  
(Unaudited)**

**Note 1 Organization and Nature of Operations and Basis of Presentation**

**(A) Description of the Business**

Pipex Pharmaceuticals, Inc. ("Pipex") is a development-stage pharmaceutical company that is developing proprietary, late-stage drug candidates for the treatment of neurologic and fibrotic diseases.

In January 2007 the Company's Board of Directors approved a 3 for 1 reverse stock split of all outstanding common stock, stock options and stock warrants of Pipex which was effective of April 25, 2007. All references to the number of shares and per share amounts have been retroactively restated to reflect this reverse stock split.

**(B) Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes necessary for a fair presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management of Pipex, the interim consolidated financial statements included herewith contain all adjustments (consisting of normal recurring accruals and adjustments) necessary for their fair presentation. The unaudited interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-KSB, which contains the audited financial statements and notes thereto, together with the Management's Discussion and Analysis, for the year ended December 31, 2006. The interim results for the period ended September 30, 2007 are not necessarily indicative of results for the full fiscal year.

**(C) Reverse Merger and Recapitalization**

On October 31, 2006, Sheffield Pharmaceuticals, Inc. ("Sheffield"), a shell corporation, entered into a Merger Agreement ("Merger") with Pipex Therapeutics Inc. ("Pipex Therapeutics"), a privately owned Delaware company, whereby Pipex Therapeutics was the surviving corporation. This transaction was accounted for as a reverse merger since Sheffield did not have any operations and a recapitalization of Pipex Therapeutics. Since Pipex Therapeutics acquired a controlling voting interest, it was deemed the accounting acquirer, while Sheffield was deemed the legal acquirer. The historical financial statements of the Company are those of Pipex Therapeutics, Effective Pharmaceuticals, Inc. ("EPI"), Solovax, Inc. ("Solovax") and CD4 Biosciences, Inc ("CD4") since inception, and of the consolidated entities from the date of Merger and subsequent. On December 11, 2006, Sheffield changed its name to Pipex Pharmaceuticals, Inc.

Since the transaction is considered a reverse merger and recapitalization, the guidance in SFAS No. 141 does not apply for purposes of presenting pro-forma financial information.

Pursuant to the Merger Agreement, Sheffield issued 11,333,334 shares of common stock for all of the outstanding Series A, convertible preferred and common stock of Pipex Therapeutics and Sheffield assumed all of Pipex Therapeutics's outstanding options and warrants, but did not assume the options and warrants outstanding within Pipex Therapeutics's majority owned subsidiaries. On October 31, 2006, concurrent with the Merger, Pipex Therapeutics executed a private stock purchase agreement to purchase an additional 808,767 shares of common stock held by Sheffield's sole officer and director; these shares were immediately cancelled and retired. Aggregate consideration paid for Sheffield was



**Pipex Pharmaceuticals, Inc. and Subsidiaries**  
**(A Development Stage Company)**

**Notes to Consolidated Financial Statements**  
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\$665,000. Upon the closing of the reverse merger, shareholders of Sheffield retained an aggregate 245,824 shares of common stock. As a result of these transactions, Pipex Therapeutics acquired approximately 98% ownership of the issued and outstanding common shares of Sheffield.

**(D) Contribution Agreements—Consolidation of Entities under Common Control**

1. EPI's Acquisition of CD4

On December 31, 2004, EPI acquired 91.61% of the issued and outstanding common stock of CD4 in exchange for 825,000 shares of common stock having a fair value of \$825. EPI assumed certain outstanding accounts payable and loans of CD4 of approximately \$664,000. The fair value of the exchange was equivalent to the par value of the common stock issued. CD4 shareholders retained 119,000 shares (8.39%) of the issued and outstanding common stock of CD4; these shareholders comprise the non-controlling shareholder base of CD4.

2. Pipex Therapeutic's Acquisition of Solovax

On July 31, 2005, Pipex Therapeutics acquired 96.9% of the aggregate voting preferred and common stock of Solovax.. Pipex Therapeutics assumed all outstanding liabilities of approximately \$310,000, the transfer of 1,000,000 shares of Series A Convertible Preferred Stock owned by Solovax's president and 250,000 shares of common stock owned by Solovax's COO. The fair value of the exchange was equivalent to the par value of the common stock received pursuant to the terms of the contribution.

3. Pipex Therapeutic's Acquisition of EPI/CD4

On December 31, 2005, Pipex Therapeutics acquired 65.47% of the aggregate voting preferred and common stock of EPI and its majority owned subsidiary CD4. In addition, Pipex Therapeutics assumed \$583,500 of outstanding liabilities of EPI. The fair value of the exchange was equivalent to the par value of the common stock received pursuant to the terms of the contribution.

In the consolidated financial statements, each of these transactions was analogous to a recapitalization with no net change to equity since the entities were under common control at the date of the transaction.

4. Pipex Pharmaceutical's Acquisition of EPI

On January 5, 2007, EPI merged with and into a wholly owned subsidiary of Pipex, Effective Acquisition Corp. In the transaction, Pipex issued 795,248 shares of common stock having a fair value of \$15,865,184 based upon the quoted closing trading price of \$19.95 per share. As consideration for the share issuance, EPI, exchanged 634,167 shares of Series B Convertible Preferred stock and 25,000 shares of common stock into 765,087 and 30,161 (pursuant to the reverse stock split), shares of Pipex common stock respectively. The Company took a charge of \$601,712 to compensation expense for the newly issued common stock to an officer and director of the Company. The additional 951,250 shares of outstanding Series B preferred stock dividends were cancelled and retired and were not contemplated in the exchange. EPI also cancelled and retired all of the issued and outstanding 3,000,000 shares of Series A Convertible Preferred stock as well as 750,000 shares of common stock. In connection with this exchange, and pursuant to EITF 98-3, "Determining whether a Non-Monetary Transaction involves the receipt of Productive Assets or of a Business" EPI was classified as a development stage company and thus was not

**Pipex Pharmaceuticals, Inc. and Subsidiaries**  
**(A Development Stage Company)**

**Notes to Consolidated Financial Statements**  
**(Unaudited)**

considered a business. As a result, SFAS No. 141 purchase accounting rules did not apply. Additionally, the Company applied the provisions of EITF 86-32, "Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock" and has determined that even though the preferred stock of EPI was not mandatorily redeemable, this transaction would be considered a capital transaction, and there would be no resulting gain or loss.

Finally, in connection with EITF Topic D-42, "The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock", The Company has determined that the fair value of the consideration transferred to the holders of EPI Series B, convertible preferred stock over the carrying amount of the preferred stock represents a return to the preferred stockholders. The difference is \$12,409,722, which is included as a component of paid in-kind dividends. This amount is included as an additional reduction in net loss applicable to common shareholders for purposes of computing loss per share in the accompanying financial statements for the three and nine month periods ended September 30, 2007 and September 30, 2006 and for the period from January 8, 2001 (inception) to September 30, 2007.

As part of the acquisition of EPI, the Company granted an aggregate 68,858 warrants and 34,685 options for the outstanding warrants and options with EPI warrant and option holders. These new options and warrants will continue to vest according to their original terms. Pursuant to SFAS No. 123R and fair value accounting, the Company treated the exchange as a modification of an award of equity instruments. As such, incremental compensation cost shall be measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. In substance, Pipex repurchased the EPI instruments by issuing a new instrument of equal or greater value.

The Company used the following weighted average assumptions for the fair value of the replacement award: expected dividend yield of 0%; expected volatility of 196.10%; risk-free interest rate of 4.65%, an expected life ranging from seven to eight years and exercise prices ranging from \$0.09 - \$3.30.

The Company has the following weighted average assumptions for the fair value of the cancelled award at the cancellation date: expected dividend yield of 0%; expected volatility of 200%; risk-free interest rate of 4.65%, an expected life ranging from seven to eight years and exercise prices ranging from \$0.09 - \$3.30.

The fair value of the replacement award required an increase in compensation expense of approximately \$352,734.

**Note 2 Summary of Significant Accounting Policies**

**(A) Principles of Consolidation**

The consolidated financial statements include the accounts of Pipex Pharmaceuticals, Inc. and its majority owned subsidiaries, Pipex Therapeutics, Solovax, EPI, and CD4. All significant inter-company accounts and transactions have been eliminated in consolidation.

For financial accounting purposes, the Company's inception is deemed January 8, 2001. The activity of EPI for the period from December 12, 2000 to January 7, 2001 was nominal. Therefore, there is no financial information presented for this period.

**Pipex Pharmaceuticals, Inc. and Subsidiaries  
(A Development Stage Company)**

**Notes to Consolidated Financial Statements  
(Unaudited)**

**(B) Development Stage**

The Company's consolidated financial statements are presented as statements of a development stage enterprise. For the period from inception (January 8, 2001) to date, the Company has been a development stage enterprise, and accordingly, the Company's operations have been directed primarily toward the acquisition and creation of intellectual properties and certain research and development activities to improve current technological concepts. As the Company is devoting its efforts to research and development, there has been no revenue generated from sales, license fees or royalties. Additionally, the Company continually seeks sources of debt or equity based funding to further its intended research and development activities. The Company has experienced net losses since its inception, and had an accumulated deficit of \$27,917,163 at September 30, 2007.

**(C) Use of Estimates**

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods presented. Actual results may differ from these estimates.

Significant estimates during 2007 and 2006 include depreciable lives of property, valuation of stock options and warrants granted for services or compensation pursuant to EITF No. 96-18 and SFAS No. 123R, existence and recording of research and development expenditures as expenses in connection with the provisions of SFAS No. 2, estimates of the probability and potential magnitude of contingent liabilities and the valuation allowance for deferred tax assets.

**(D) Cash**

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. At September 30, 2007, the balance exceeded the federally insured limit by \$7,102,488.

**(E) Property and Equipment**

Property and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Items of property and equipment with costs greater than \$1,000 are capitalized and depreciated on a straight-line basis over the estimated useful lives, as follows:

<b>Description</b>	<b>Estimated Useful Life</b>
Office equipment and furniture	5 years
Laboratory equipment	10 years
Manufacturing equipment	10 years
Leasehold improvements and fixtures	Lesser of estimated useful life or life of lease

**(F) Long Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to

**Pipex Pharmaceuticals, Inc. and Subsidiaries  
(A Development Stage Company)**

**Notes to Consolidated Financial Statements  
(Unaudited)**

be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There were no impairment charges taken during the three and nine month periods ended September 30, 2007 and September 30, 2006 and for the period from January 8, 2001 (inception) to September 30, 2007.

**(G) Derivative Liabilities**

In connection with the reverse merger, all outstanding convertible preferred stock of Pipex was cancelled and retired, as such, the provisions of EITF No. 00-19, "Accounting for Derivative Financial Instruments Issued in, and Potentially Settled in, a Company's Own Stock" do not apply. The Company's majority owned subsidiaries also contain issued convertible preferred stock; however, none of these instruments currently contains any provisions that require the recording of a derivative liability. In connection with the acquisition of EPI on January 5, 2007 (See Notes 1(C) and 1(D)(4)), all issued and outstanding shares of Series A and B, convertible preferred stock were cancelled and retired. As such, no potential derivative liabilities will exist pertaining to these instruments.

**(H) Net Loss per Share**

Basic earnings (loss) per share is computed by dividing the net income (loss) less preferred dividends for the period by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income (loss) less preferred dividends by the weighted average number of common shares outstanding including the effect of share equivalents, such as stock options and warrants. Since the Company reported a net loss for the three and nine-month periods ended September 30, 2007 and September 30, 2006 and for the period from January 8, 2001 (inception) to September 30, 2007, respectively, all common stock equivalents would be anti-dilutive; as such there is no separate computation for diluted earnings per share. All common stock equivalents are discussed in Note 4.

The Company's net loss per share for the three months ended September 30, 2007 and 2006, the nine months ended September 30, 2007 and 2006 and for the period from January 8, 2001 (inception) to September 30, 2007 was computed assuming the recapitalization associated with the reverse merger in October 2006 and the reverse stock split in April 2007, as such all share and per share amounts have been retroactively restated. Additionally, the numerator for computing net loss per share was adjusted for preferred stock dividends recorded during the three months ended September 30, 2007 and 2006, the nine months ended September 30, 2007 and 2006 and the period from January 8, 2001 (inception) to September 30, 2007, in connection with the acquisition of EPI (See Note 1(D)(4)) as well as and certain provisions relating to the sale of EPI's Series B, convertible preferred stock.

**(I) Research and Development Expense**

The Company expenses all research and development expense as incurred for which there is no alternative future use. Research and development expenses consist primarily of manufacturing costs, license fees, salaries and related personnel costs, fees paid to consultants and outside service providers for laboratory development, legal expenses resulting from intellectual property prosecution and other expenses relating to the design, development, testing and enhancement of the Company's product candidates, as well as an allocation of overhead expenses incurred by the Company.

**Pipex Pharmaceuticals, Inc. and Subsidiaries  
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**Notes to Consolidated Financial Statements  
(Unaudited)**

**(J) Fair Value of Financial Instruments**

The carrying amounts of the Company's short-term financial instruments, including accounts payable, accrued liabilities and notes payable, approximate fair value due to the relatively short period to maturity for these instruments.

**(K) Stock Based Compensation**

All share-based payments to employees since inception have been recorded and expensed in the statements of operations as applicable under SFAS No. 123R "Share-Based Payment".

**(L) Reclassifications**

Certain amounts in the year 2006 financial statements have been reclassified to conform to the year 2007 presentation. The results of these reclassifications did not materially affect the Company's consolidated financial position, results of operations or cash flows.

**(M) Recent Accounting Pronouncements**

In June 2007, the Emerging SEC's Issues Task Force ("EITF") issued EITF No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, ("EITF 07-3"). EITF 07-3 provides guidance for upfront payments related to goods and services of research and development costs and is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of EITF 07-3 on its financial statements.

In June 2007, the EITF issued EITF No. 07-01, *Accounting for Collaborative Arrangements*, ("EITF 07-1"). EITF 07-1 provides guidance for companies in the biotechnology or pharmaceutical industries that may enter into agreements with other companies to collaboratively develop, manufacture, and market a drug candidate (Collaboration Agreements) and is effective for fiscal years beginning after December 15, 2007. The Company does not expect that EITF 07-01 will have an effect on its financial condition or results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("FAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of FAS 157 to significantly affect its financial condition or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of SFAS 115* ("FAS 159"), which permits companies to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the effect FAS 159 will have on our consolidated financial position and results of operations.

**Note 3 Note Payable**

On September 27, 2007, the Company entered into a loan facility with a bank whereby the Company borrowed \$500,000 for equipment purchases and leasehold improvements. This loan facility represents a 45% concentration of debt financing. Borrowings under the facility bear interest at the bank's prime rate (7.75% at September 30, 2007) plus 2% and are payable in equal monthly principal payments

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(A Development Stage Company)**

**Notes to Consolidated Financial Statements  
(Unaudited)**

over 30 months. As of September 30, 2007, outstanding borrowings under the facility were \$500,000. The loan facility subjects the Company to financial covenants, which, among other restrictions, requires the Company to maintain certain minimum levels of tangible net worth and liquidity. Management has determined that the Company is in compliance with these covenants at September 30, 2007.

On March 30, 2007, the Company entered into a loan facility with a bank whereby the Company borrowed \$600,000 for equipment purchases. This loan facility represents a 55% concentration of debt financing. Borrowings under the facility bear interest at the bank's prime rate (7.75% at September 30, 2007) plus 2% and are payable in equal monthly principal payments over 36 months. As of September 30, 2007, outstanding borrowings under the facility were \$500,000. The bank holds the stock certificates of all the Company's subsidiaries as collateral for the loan. The loan facility subjects the Company to financial covenants, which, among other restrictions, requires the Company to maintain certain minimum levels of tangible net worth and liquidity. Management has determined that the Company is in compliance with these covenants at September 30, 2007.

**Note 4 Stockholders' Equity and Non-Controlling Interest**

**(A) Common Stock Issuances of Issuer**

From May 17, 2007 through August 8, 2007, the Company issued 127,406 shares of common stock in connection with the exercise of common stock warrants for \$282,841 (\$2.22/share).

On January 5, 2007, the Company issued 795,248 shares of common stock in the acquisition of EPI having a fair value of \$15,865,184 based upon the quoted closing trading price of \$19.95 per share. (See Note (1)(D)(4)).

During October and November of 2006, the Company completed private placements of its stock, which resulted in the issuance of 6,900,932 shares of common stock and 3,451,519 warrants. The net proceeds from the private placements were approximately \$12,766,000, which included cash paid as direct offering costs of approximately \$1,160,000. In connection with the private placements, the Company engaged a company, which is controlled by the Company's Chairman and Chief Executive Officer, as the placement agent for the transaction. Of the total approximate \$1,160,000 in direct offering costs, the Company paid the placement agent the sum of approximately \$1,033,800. Additionally the placement agent was paid non-cash compensation of 958,277 warrants with an aggregate fair value of \$4,555,457.

On October 31, 2006, the loans payable to the Company's founder, President and CEO were converted into 1,665,211 shares of common stock and 832,606 warrants.

During October 2006, the Company converted all of its 5,421,554 shares of Series A, convertible preferred stock in exchange for equivalent common shares. The fair value of the exchange was based upon par value with a net effect of \$0 to the statement of equity.

During October 2006, the Company issued 422,314 shares of common stock to an unrelated third party in connection with the terms of a license agreement. The fair value was \$388,691 based upon the recent cash offering price at that time and was charged to research and development expense.

**(B) Preferred Stock Issuances of Subsidiaries**

From March through June 2005, EPI issued 1,902,500 shares of Series B Convertible Preferred Stock, at \$1 per share, for proceeds of \$1,902,500. In connection with this offering, EPI paid \$152,200 of

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offering costs that were charged against additional paid in capital. The Company also granted 171,225 warrants as compensation in connection with this equity raise. On January 5, 2007, pursuant to the acquisition of EPI, these shares of Series B Convertible Preferred Stock were cancelled and retired. (See Note 1(D)(4))

On February 7, 2001, CD4 issued 1,000,000 shares of Series A Convertible Preferred Stock, to an affiliate of a founder serving as the CEO and Chairman of the Board of CD4 in exchange for \$300,000 (\$.30 per share).

On January 31, 2001, Solovax issued 1,000,000 shares of Series A Convertible Preferred Stock to the Founder serving as the President, CEO and Chairman of the Board of Solovax in exchange for \$300,000 (\$.30 per share).

On January 15, 2001, Pipex Therapeutics issued 5,421,554 shares of Series A Convertible Preferred Stock (pursuant to the October 31, 2006 reverse merger and recapitalization and the reverse stock split on April 25, 2007) to a founder serving as the President, CEO and Chairman of the Board of Pipex in exchange for \$300,000 (\$0.055 per share). On October 31, 2006, pursuant to the reverse merger with Sheffield, these shares of Series A Convertible Preferred Stock were cancelled and retired.

On January 4, 2001, EPI issued 3,000,000 shares of Series A Convertible Preferred Stock to the Founder serving as the CEO and Chairman of the Board of EPI in exchange for \$250,000 (\$0.08 per share).

**(C) Common Stock Issuances of Subsidiaries**

During the period from January 8, 2001 (inception) to December 31, 2004, the Company's majority owned subsidiaries; CD4 and Solovax issued an aggregate 590,000 shares of common stock for \$590 and an aggregate 119,000 shares of common stock was issued for compensation and consulting services rendered having a fair value of \$119.

**(D) Stock Option Plan**

On March 20, 2007, the Company's Board of Directors approved the Company's 2007 Stock Incentive Plan (the "2007 Stock Plan") for the issuance of up to 2,500,000 shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. The exercise price of stock options under the plan is determined by the compensation committee of the Board of Directors, and may be equal to or greater than the fair market value of the Company's common stock on the date the option is granted. Options become exercisable over various periods from the date of grant, and generally expire ten years after the grant date. As of September 30, 2007, there are a total of 394,179 options issued and outstanding under the 2007 Stock Plan. This plan is pending stockholder approval.

During 2001, Pipex Therapeutics' Board and stockholders adopted the 2001 Stock Incentive Plan (the "2001 Stock Plan"). This plan was assumed by Pipex in the merger, in the fourth quarter of 2006. As of the date of the merger there were a total of 1,489,353 options issued and outstanding. The total number of shares of stock with respect to which stock options and stock appreciation rights may be granted to any one employee of the Company or a subsidiary during any one-year period shall not exceed 1,250,000. All awards pursuant to the Plan shall terminate upon the termination of the grantee's employment for any reason. Awards include options, restricted shares, stock appreciation rights, performance shares and cash-based awards (the "Awards"). The Plan contains certain anti-

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dilution provisions in the event of a stock split, stock dividend or other capital adjustment, as defined in the Plan. The Plan provides for a Committee of the Board to grant awards and to determine the exercise price, vesting term, expiration date and all other terms and conditions of the awards, including acceleration of the vesting of an award at any time. As of September 30, 2007, there are 1,489,353 options issued and outstanding under the 2001 Stock Plan.

Pursuant to the provisions of SFAS No. 123R, in the event of termination, the Company will cease to recognize compensation expense. There is no deferred compensation recorded upon initial grant date, instead, the fair value of the share-based payment is recognized ratably over the stated vesting period.

The Company has followed fair value accounting and the related provisions of SFAS No. 123R for all share based payment awards since inception. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes assumptions used in the three months ended September 30, 2007 and 2006, the nine months ended September 30, 2007, and 2006 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Exercise price	\$4.64 - \$6.80	\$0.18	\$0.09 - \$22.50	\$0.09 - \$1.83
Expected dividends	0%	0%	0%	0%
Expected volatility	196.06% - 197.04%	200%	103.29% - 200%	200%
Risk free interest rate	4.79% - 5.16%	4.99%	4.18% - 5.16%	4.44% - 4.99%
Expected life of option	5-10 years	10 years	5-10 years	3-10 years

All option grants are expensed in the appropriate period based upon vesting terms, in each case with an offsetting credit to additional paid in capital. The stock-based compensation expense recorded by the Company for the three months ended September 30, 2007 and 2006, for the nine months ended September 30, 2007 and 2006 and the period from inception to September 30, 2007 with respect to stock option awards is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Inception to September 30, 2007
	2007	2006	2007	2006	
Research and development:					
employees	\$ 13,797	\$ 37,915	\$ 255,846	\$ 41,756	\$ 495,030
non-employees	—	—	\$ 145,783	—	\$ 205,743
General and administrative:					
employees	\$ 44,098	\$ 11,359	\$ 172,431	\$ 11,359	\$ 368,436
non-employees	—	—	\$ 293,599	\$ 105,145	\$ 704,909
	<u>\$ 57,895</u>	<u>\$ 49,274</u>	<u>\$ 867,659</u>	<u>\$ 158,260</u>	<u>\$ 1,774,118</u>

Pursuant to FAS 123R, the Company records stock based compensation based upon the stated vested provisions in the related agreements. The vesting provisions for these agreements have various terms as follows: immediate vesting, half vesting immediately and the remainder over three years, quarterly over three years, annually over three years, one-third immediate vesting and remaining annually over two years, and one half immediate vesting with remaining vesting over six months.





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A summary of stock option activity for Pipex for the nine months ended September 30, 2007 (Unaudited) and for the year ended December 31, 2006 is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2005	254,794	\$ 0.09
Granted	1,364,061	\$ 2.19
Exercised	—	\$ —
Forfeited	(5,000)	\$ 0.90
Balance at December 31, 2006	1,613,855	\$ 1.45
Granted	286,344	\$ 6.21
Exercised	—	\$ —
Forfeited	(16,667)	\$ 15.75
Balance at September 30, 2007 (Unaudited)	1,883,532	\$ 2.05

The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding at September 30, 2007 were 7.83 years and \$3,852,864 respectively. Of the total options granted, 1,069,061 are fully vested, exercisable and non-forfeitable and have a weighted average exercise price of \$1.27. Of the 286,344 options granted in 2007, 86,779 were granted to related parties of which all are fully vested.

Of the total 1,883,532 options outstanding, 1,288,810 options are held by related parties of which 682,495 are fully vested, exercisable and non-forfeitable.

**(E) Stock Warrants**

On February 15, 2007, the Company executed an agreement with an unrelated third party to provide certain services. Pursuant to the terms of the agreement, The Company will issue warrants to purchase 100,000 shares of common stock upon the achievement of various milestones as well as over the life of the contract. The warrants have an exercise price of \$3.75. The fair value of the warrants totals \$374,760 and was determined by using the Black-Scholes model with the following assumptions: expected dividend yield of 0%; expected volatility of 187.22%; risk-free interest rate of 4.68% and an expected life of five years. As of September 30, 2007, 33,333 warrants have been issued for which the Company has charged stock based compensation expense in the amount of \$124,919.

On January 5, 2007, the Company issued warrants to purchase 68,858 shares of common stock as part of the acquisition of EPI. (See Note (1)(D)(4))

In October and November 2006, the Company issued warrants to purchase 3,451,519 shares of common stock as part of private placement offerings. The warrants have an exercise price of \$2.22 and each warrant has a life of 5 years. As of September 30, 2007, 127,406 of these warrants have been exercised and 3,324,113 remain outstanding. (See Note 4 (A))

In addition, as part of the private placements, the Company issued warrants to purchase 958,277 shares of common stock to the placement agent, that is a company that is controlled by the Company's Chairman and CEO. The warrants have an exercise price of \$2.22. The fair value of the warrants totals \$4,555,457 and was determined by using the Black-Scholes model with the following assumptions: expected dividend yield of 0%; expected volatility of 79.4%; risk-free interest rate of 4.54% and an expected life of 10 years. Since these warrants were granted as compensation in

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connection with an equity raise, the Company has treated these warrants as a direct offering cost. The result of the transaction has a \$0 net effect to equity. The warrants are fully vested and non-forfeitable.

On October 31, 2006, the loans payable to the Company's founder, President and CEO were converted into 1,651,878 shares of common stock and 832,606 warrants to purchase common stock. The warrants have an exercise price of \$2.22 and a life of 5 years.

4,284,125 of the warrants are callable by Pipex in the event that Pipex's common stock trades at \$5.55 per share for 20 of 30 consecutive days. Accordingly, net proceeds of approximately \$9,500,000 may be realized by Pipex in the event that all of the warrants are exercised.

A summary of warrant activity for Pipex for the nine months ended September 30, 2007 (Unaudited) and for the year ended December 31, 2006 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
Balance as December 31, 2005	—	—	
Granted	5,242,402	\$ 2.22	4.04 Years
Exercised	—	—	—
Forfeited	—	—	—
	<u>5,242,402</u>		
Balance as December 31, 2006	5,242,402	\$ 2.22	4.04 Years
Granted	102,191	\$ 3.45	7.81 Years
Exercised	(127,406)	\$ 2.22	4.09 Years
Forfeited	—	—	—
	<u>5,217,187</u>		
Balance at September 30, 2007 (Unaudited)	5,217,187	\$ 2.24	4.64 Years

**(F) Options of Subsidiary**

CD4 has 30,000 options outstanding and exercisable, with an exercise price of \$0.20 and a remaining contractual life of 3.24 years as of December 31, 2007.

**(G) Non-Controlling Interest**

Since the Company's majority owned subsidiaries have never been profitable and present negative equity, there has been no establishment of a positive non-controlling interest. Since this value cannot be presented as a deficit balance, the accompanying consolidated balance sheet does not reflect any notation.

**Note 5 Commitments**

**(A) License Agreements**

Since inception, the Company has entered into various option and license agreements for the use of patents and their corresponding applications. These agreements have been entered into with various educational institutions and hospitals. These agreements contain payment schedules or stated amounts due for (a) option and license fees, (b) expense reimbursements, and (c) achievement of success



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milestones. All expenses related to these agreements have been recorded as research and development. In connection with these agreements, the Company had \$2,737 outstanding as accounts payable and \$30,000 outstanding as accrued liabilities, as of September 30, 2007.

In connection with these agreements, the Company may be obligated to make milestone payments up to an amount of \$8,425,000. Some of these payments may be fulfilled through the issuance of the Company's common stock, at the Company's option. There have been no such milestones achieved or payments made to date. At the present time, the Company can give no assurances that any such milestones will be achieved. In addition to the milestone payments, the Company may be obligated to make royalty payments on future sales pursuant to the agreements.

**(B) Research Agreement**

In September 2005, the Company entered into a three-year sponsored research agreement with a University. Pursuant to that agreement, the Company sponsors approximately \$460,000 per year, payable in monthly installments. This agreement can be extended for an additional two-year period. As of September 30, 2007, \$85,055 is included in accounts payable in connection with this agreement.

**(C) Consulting Agreement**

In August 2005, Pipex entered into an agreement with an individual to provide consulting services for the Company's research and development. The consultant was paid \$25,000 upon the execution of the agreement. The consultant will receive annual consulting fees of \$120,000 for each of the next three years. The consultant also received 66,667 options having a fair value \$59,960 and was determined using the Black-Scholes model with the following assumptions: expected dividend yield of 0%, expected volatility of 200%, risk free interest rate of 1.81% and an expected life of 10 years.

**Note 6 Amendment to Employment Agreement — Related Party**

In January 2005, the Company entered into a four-year employment agreement with the Company's Chief Executive Officer. Pursuant to this agreement, the Chief Executive Officer will be paid an annual base salary of \$297,000, an annual bonus equal to 30% of base salary. On July 20, 2007, the Board of Directors approved an amended and restated employment agreement with the Chief Executive Officer. The amended employment agreement provides that the Chief Executive Officer is to be paid a base salary of \$195,000 per year plus a guaranteed bonus of \$100,000. The Chief Executive Officer may also be entitled to discretionary transactional bonuses. In addition, the amended agreement provides that the Chief Executive Officer has waived the receipt of any salary and bonus payable under the original agreement, which amounts to \$275,124, for no additional consideration. This amount was treated as a capital contribution to the Company in the third quarter of 2007.

**Note 7 Subsequent Events**

**(A) Warrant Call**

On October 15, 2007, the Company called 3,274,561 warrants issued by the Registrant during October and November 2006, the underlying shares of which are covered by an effective registration statement, pursuant to the warrant call provisions contained in these warrants. Each warrant is exercisable into one share of the Registrant's common stock at \$2.22 per share. These warrants will expire and no longer be exercisable if they are not exercised on or before November 9, 2007.

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In connection with this warrant call, the Company entered into a warrant solicitation agreement with Noble International Investments, Inc. ("Noble") appointing Noble as the Company's exclusive warrant solicitation agent. As compensation for Noble's services, the Company will pay Noble a cash fee of 7% of the gross proceeds from the Holder's exercise of warrants, a non-accountable cash fee allowance of 1% of the gross proceeds received from the Holder's exercise of warrants and a non-refundable cash retainer fee of \$35,000 for services rendered. At the end of the Warrant Solicitation Period, or upon full exercise of all outstanding warrants, whichever occurs sooner, Noble shall have the right to purchase common stock warrants, equal to 10.0% of the number of shares issued from warrants exercised during the Warrant Solicitation Period. The warrants will have a term of five years from the date of issuance, will contain customary anti-dilution provisions, piggy back registration rights, and will be exercisable at a purchase price of \$6.36 per share. The Company may, at its option, call the warrants if the average daily trading price of the Company's common stock exceeds, for at least 20 of 30 consecutive trading days, a price per share that is equal to or greater than 250% of the warrant's exercise price of \$6.36 per share, and there is an effective registration statement registering the shares of the Company's common stock underlying the warrant. Noble will have the right at any time during the five-year term of the warrants to exercise the warrants at its option on a "cashless" basis, only if the Company fails to maintain an effective registration statement registering the shares of the Company's common stock underlying the warrants.

**(B) Employment Agreement**

On October 10, 2007, the Company entered into a three-year employment agreement with its Chief Scientific Officer. The employment agreement provides that the Company will pay the Chief Scientific Officer a \$7,500 signing bonus and a base salary of \$205,000 per year. The agreement also provides that the Chief Scientific Officer is eligible for cash and non-cash bonuses at the end of each of the Company's fiscal years during the term of the agreement at the discretion of the Company's compensation committee as well as additional commission-based cash and stock bonuses during each fiscal year based on significant revenue-generating, out-licensing and merger and acquisition transactions initiated and completed by the Chief Scientific Officer, again at the discretion of the compensation committee.

The employment agreement also provides that the Company shall, subject to stockholder approval of the Company's 2007 Stock Incentive Plan, grant the Chief Scientific Officer 150,000 stock options to purchase 150,000 shares of the Company's common stock, exercisable at the fair market value of the Company's common stock on the date of grant, with the options vesting quarterly over three years, in equal installments on each quarterly anniversary of the date of the employment agreement.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

*The following discussion should be read in conjunction with the attached unaudited consolidated financial statements and notes thereto, and with our audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2006, found in our Annual Report on Form 10-KSB. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Where possible, we have tried to identify these forward looking statements by using words such as "anticipate," "believe," "intends," or similar expressions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under "Risk Factors" in Part II, Item 1A of this Report.*

### Overview

Since our inception during January 2001, our efforts and resources have been focused primarily on acquiring and developing our pharmaceutical technologies, raising capital and recruiting personnel. We are a development stage company and have had no product sales to date and we will not have any product sales until and unless we receive approval from the FDA or receive approval from equivalent foreign regulatory bodies to begin selling our pharmaceutical candidates. Our major sources of working capital have been proceeds from equity financings from our Chairman and Chief Executive Officer and various private financings, primarily involving private sales of our common stock and other equity securities.

Our company's current corporate structure resulted from the October 2006 merger of a newly-created wholly owned subsidiary of Sheffield Pharmaceuticals, Inc. ("Sheffield"), a Delaware corporation incorporated in September 1993, and Pipex Therapeutics, Inc., a Delaware corporation ("Pipex Therapeutics"). In connection with that transaction, a wholly owned subsidiary of Sheffield merged with and into Pipex Therapeutics, with Pipex Therapeutics remaining as the surviving corporation and a wholly-owned subsidiary of Sheffield. On December 11, 2006, Sheffield changed its name to Pipex Pharmaceuticals, Inc. ("Pipex"). In exchange for their shares of capital stock in Pipex Therapeutics, the former stockholders of Pipex Therapeutics received shares of capital stock of Sheffield representing approximately 98 percent of the outstanding equity of Sheffield on a primary diluted basis after giving effect to the transaction, with Sheffield assuming Pipex's outstanding options and warrants. In addition, the board of directors of Sheffield was reconstituted shortly following the effective time of the transaction such that the directors of Sheffield were replaced by our current directors, all of whom were previously directors of Pipex Therapeutics. Further, upon the effective time of the merger, the business of Sheffield was abandoned and the business plan of Pipex Therapeutics was adopted. The transaction was therefore accounted for as a reverse acquisition with Pipex Therapeutics as the acquiring party and Sheffield as the acquired party. Accordingly, when we refer to our business and financial information relating to periods prior to the merger, we are referring to the business and financial information of Pipex Therapeutics, unless the context indicates otherwise.

### Critical Accounting Policies

In December 2001, the SEC requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following discussion regarding research and development expenses, general and administrative expenses and non-cash compensation expense involve our most critical accounting policies.

Research and development expenses consist primarily of manufacturing costs, license fees, salaries and related personnel costs, fees paid to consultants and outside service providers for laboratory development, legal expenses resulting from intellectual property prosecution and organizational affairs

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and other expenses relating to the design, development, testing, and enhancement of our product candidates, as well as an allocation of overhead expenses incurred by the Company. We expense our research and development costs as they are incurred.

General and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, recruitment expenses, professional fees and other corporate expenses, including business development and general legal activities, as well as an allocation of overhead expenses incurred by the Company. We expense our general and administrative expenses as they are incurred.

Our results include non-cash compensation expense as a result of the issuance of stock and stock option grants. Compensation expense for options granted to employees represents the fair value of the award at the date of grant. All share-based payments to employees since inception have been recorded and expensed in the statements of operations as applicable under SFAS No. 123R "Share-Based Payment".

This amount is being recorded over the respective vesting periods of the individual stock options. The expense is included in the respective categories of expense in the statement of operations. We expect to record additional non-cash compensation expense in the future, which may be significant. However, because some of the options are milestone-based, the total expense is uncertain.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

### Results of Operations

#### *Three Months Ended September 30, 2007 and 2006.*

**Research and Development Expenses.** For the three months ended September 30, 2007, research and development expense was \$1,573,610 as compared to \$541,467 for the three months ended September 30, 2006. The increase of \$1,032,143 is due primarily to an increase of approximately \$474,000 associated with payments related to further the development of our licensed clinical drug candidates and an increase in salaries and payroll taxes of approximately \$204,000.

**General and Administrative Expenses.** For the three months ended September 30, 2007, general and administrative expense was \$599,388 as compared to \$216,133 for the three months ended September 30, 2006. The increase of \$383,255 is due primarily to an increase to professional fees of approximately \$181,000 and an increase in salaries and payroll taxes of approximately \$59,000.

**Other Income (Expense), net.** For the three months ended September 30, 2007, other income was \$52,056 compared to \$1 for the three months ended September 30, 2006. For the three months ended September 30, 2007, interest income was \$66,041 as compared to \$1 for the three months ended September 30, 2006. Interest income was higher for the three month period in 2007 as compared to the same period in 2006, due to the higher levels of cash available for investment. The Company maintains certain of its cash accounts in interest bearing savings accounts. For the three months ended September 30, 2007, interest expense was \$13,985 as compared to \$0 for the three months ended September 30, 2006. Interest expense for the three month period in 2007 relates to interest paid on the note payable which did not exist for the same three month period in 2006.

**Net Loss.** Net loss for the three months ended September 30, 2007, was \$2,120,942 as compared to \$757,599 for the three months ended September 30, 2006. This increase in net loss is attributable primarily to an increase in research and development expenses of \$1,032,143, and an increase in general and administrative expenses of \$383,255 as discussed above.



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### *Nine Months Ended September 30, 2007 and 2006.*

Research and Development Expenses. For the nine months ended September 30, 2007, research and development expense was \$4,069,782 as compared to \$1,277,722 for the nine months ended September 30, 2006. The increase of \$2,792,060 is due primarily to an increase of approximately \$1,062,000 associated with payments related to further the development of our licensed clinical drug candidates, an increase in salaries and payroll taxes of approximately \$724,000 and an increase in stock based compensation charges of approximately \$715,000.

General and Administrative Expenses. For the nine months ended September 30, 2007, general and administrative expense was \$2,852,126 as compared to \$711,567 for the nine months ended September 30, 2006. The increase of \$2,140,559 is due primarily to an increase in stock based compensation charge of approximately \$983,000, an increase to professional fees of approximately \$749,000 and an increase in salaries and payroll taxes of approximately \$286,000.

Other Income (Expense), net. For the nine months ended September 30, 2007, other income-net was \$189,028 compared to \$1 for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, interest income was \$218,298 as compared to \$1 for the nine months ended September 30, 2006. Interest income was higher for the nine month period in 2007 as compared to the same period in 2006, due to the higher levels of cash available for investment. For the nine months ended September 30, 2007, interest expense was \$29,270 as compared to \$0 for the nine months ended September 30, 2006. Interest expense for the nine month period in 2007 relates to interest paid on the note payable which did not exist for the same six month period in 2006.

Net Loss. Net loss for the nine months ended September 30, 2007, was \$6,732,880 as compared to \$1,989,288 for the nine months ended September 30, 2006. This increase in net loss is attributable primarily to an increase in research and development expenses of \$2,792,060 and an increase in general and administrative expenses of \$2,140,559 as discussed above.

Net Loss Applicable to Common Shareholders. The net loss applicable to common shareholders for the nine months ended September 30, 2007 includes a non-cash charge of \$12,409,722 related to the acquisition of Effective Pharmaceuticals, Inc ("EPI"). The net loss applicable to common shareholders for the nine months ended September 30, 2006 includes a non-cash charge of \$190,250 related to Series B Preferred Stock dividends issued from EPI. The total of the non-cash charges was reflected through equal and offsetting adjustments to additional paid-in-capital with no net impact on stockholders' equity. These amounts were considered in the determination of the Company's loss per common share amounts for the nine months ended September 30, 2007 and 2006 and for the period from January 8, 2001 (inception) to September 30, 2007.

### **Liquidity and Capital Resources**

During the nine months ended September 30, 2007, we had a net decrease in cash of \$4,840,098. Total cash resources as of September 30, 2007 was \$7,352,328. During the nine months ended September 30, 2007 and 2006, net cash used in operating activities was \$4,379,626 and \$1,741,795 respectively. This cash was used to fund our operations for the periods, adjusted for non-cash expenses and changes in operating assets and liabilities.

Net cash used in investing activities for the nine months ended September 30, 2007 and 2006 was \$1,743,313 and \$30,633, respectively. The net cash used in investing activities for the nine months ended September 30, 2007 resulted from the acquisition of property and equipment.

Net cash proceeds from financing activities were \$1,282,841 and \$1,080,349 for the nine months ended September 30, 2007 and 2006, respectively. The net cash proceeds from financing activities for the nine months ended September 30, 2007 resulted from \$1,100,000 in proceeds from notes payable under term loans, less \$100,000 of repayments under the loan, and \$282,841 from the proceeds of the sale of common stock from the exercise of warrants. The net cash proceeds from financing activities for the nine months ended September 30, 2006 resulted from proceeds from a related party loan of \$1,100,349, less \$20,000 of repayments under the loan.

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Our continued operations will depend on whether we are able to raise additional funds through various potential sources, such as equity and debt financing. Such additional funds may not become available on acceptable terms and there can be no assurance that any additional funding that we do obtain will be sufficient to meet our needs in the long term. We will continue to fund operations from cash on hand and through the similar sources of capital previously described. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs.

### **Current and Future Financing Needs**

We have incurred an accumulated deficit of \$27,917,163 through September 30, 2007. We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials, and our research and discovery efforts. Based on our current plans, we believe that our cash will be sufficient to enable us to meet our planned operating needs at least for the next 12 months.

However, the actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- the progress of our research activities;
- the number and scope of our research programs;
- the progress of our pre-clinical and clinical development activities;
- the progress of the development efforts of parties with whom we have entered into research and development agreements;
- our ability to maintain current research and development programs and to establish new research and development and licensing arrangements;
- our ability to achieve our milestones under licensing arrangements;
- the costs involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

We have based our estimate on assumptions that may prove to be wrong. We may need to obtain additional funds sooner or in greater amounts than we currently anticipate. Potential sources of financing include strategic relationships, public or private sales of our shares or debt and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. We do not have any committed sources of financing at this time, and it is uncertain whether additional funding will be available when we need it on terms that will be acceptable to us, or at all. If we raise funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interest of our existing stockholders will be diluted. If we are not able to obtain financing when needed, we may be unable to carry out our business plan. As a result, we may have to significantly limit our operations and our business, financial condition and results of operations would be materially harmed.

### **License and Contractual Agreement Obligations**

Below is a table of our contractual obligations for the years 2007 through 2010 as of September 30, 2007.

Agreements	Year				Total
	2007	2008	2009	2010	
Short and Long Term Debt with interest	\$ 125,842	\$ 472,865	\$ 432,068	\$ 101,667	\$ 1,132,442
Research and Development	\$ 140,615	\$ 375,688	\$ 0	\$ 0	\$ 516,303
Lease Agreements	\$ 68,204	\$ 128,908	\$ 128,908	\$ 128,908	\$ 454,928
License Agreements	\$ 55,000	\$ 178,830	\$ 110,000	\$ 95,000	\$ 438,830
Consulting Agreements	\$ 74,831	\$ 109,661	\$ 3,332	\$ 0	\$ 187,824
	\$ 464,492	\$ 1,265,952	\$ 674,308	\$ 325,575	\$ 2,730,327

## Product Candidates

### *COPREXA™ (oral tetrathiomolybdate)*

During the quarter, we completed a series of pre-NDA meetings with the FDA to discuss the clinical, nonclinical, as well as manufacturing and stability information required for our proposed NDA filing of COPREXA for the treatment of initially presenting neurologic Wilson's disease. Assuming we generate positive stability information, and based on feedback from a previous meeting held by our scientific advisor as well as these recent meetings with the FDA, we plan to file our proposed COPREXA NDA by the end of November 2007. The Pre-NDA meeting process is intended to provide an opportunity for new drug sponsors to ask and receive feedback on questions presented to the FDA. Successful Pre-NDA meetings do not ensure that the Agency will agree with our analysis of the data, that the NDA will be accepted for filing or ultimately approved for marketing.

During the quarter, we also made progress on planning our proposed multicenter phase III trial of COPREXA in refractory Idiopathic Pulmonary Fibrosis (IPF) patients for which we plan to initiate during first half of 2008. The primary purposes for this study will be to evaluate the safety and efficacy of COPREXA when administered orally to patients with IPF, a deadly lung disorder. If this phase III clinical trial for IPF is positive, we will plan to file a sNDA with the FDA seeking to expand the therapeutic utility of COPREXA into IPF.

During early November 2007, a scientific collaborator of ours presented preliminary preclinical data using COPREXA for the treatment of Alzheimer's disease in which COPREXA reduced insoluble Amyloid beta, a key Alzheimer's protein by 40% (p/0.05).

Through September 30, 2007, we have incurred approximately \$2,276,000 of costs related to our development of COPREXA, of which approximately \$150,000 and \$1,061,000 was incurred in fiscal years 2005 and 2006, respectively, and approximately \$1,065,000 was incurred for the nine months ending September 30, 2007.

### *TRIMESTA™ (oral estriol)*

In June 2007, a two year seven U.S. center, active-controlled 150 patient phase II/III clinical trial using TRIMESTA, in combination with Copaxone, an FDA approved therapy for the treatment of relapsing-remitting Multiple Sclerosis (MS) was initiated under a \$5 million grant from the Southern Chapter of the National Multiple Sclerosis Society with participation from the NIH. This phase II/III clinical trial builds upon our encouraging results from an earlier phase IIa clinical trial conducted with TRIMESTA. The primary purpose of this study is to evaluate the safety and efficacy of TRIMESTA™ in a larger MS patient population with a one year blinded interim analysis. The preclinical and clinical development of TRIMESTA™ has been primary financed by grants from the NIH and various non-profit foundations. Through September 30, 2007, we have incurred approximately \$359,000 of costs related to our development of TRIMESTA™ of which approximately \$49,500 and \$185,500 was incurred in fiscal years 2005 and 2006, respectively, and approximately \$124,000 was incurred in the first three quarters of 2007.

***Anti-CD4 802-2***

During 2007, we plan to complete our phase I/II clinical trial of anti-CD4 802-2 in the prevention of graft-vs-host disease as well as complete our preclinical animal studies of anti-CD4 802-2. The primary purpose of these preclinical studies is to evaluate the molecules potential efficacy in different disease settings. If successful, we may choose to initiate clinical studies in these diseases. The preclinical and clinical development of anti-CD4 802-2 has been primary financed by grants from the NIH and various non-profit foundations. Through September 30, 2007, we have incurred \$1,358,000 of costs related to our development of anti-CD4 802-2 of which \$57,800, \$331,800, \$303,300, \$295,100, \$112,500 and \$160,600 was incurred in fiscal years 2001, 2002, 2003, 2004, 2005 and 2006 respectively and approximately \$97,000 has been incurred in the nine months ended September 30, 2007.

***CORRECTA™ (clotrimazole emema)***

During 2007, we plan to continue the phase II clinical trial of CORRECTA™ in the treatment of acute refractory pouchitis, a gastrointestinal disease (the "CAPTURE study"). The primary purpose of this double blind, placebo-controlled phase II clinical trial is to test CORRECTA's safety and efficacy in treating acute refractory pouchitis. The CAPTURE study is supported by a \$750,000 orphan drug grant from the FDA.

The preclinical and clinical development of CORRECTA™ has been primarily financed by grants from the FDA's orphan drug products group and various non-profit foundations. Through September 30, 2007, we have incurred approximately \$245,000 of costs related to our development of CORRECTA™ of which approximately \$103,000 and \$107,000 was incurred in fiscal years 2005 and 2006, respectively, and \$35,000 has been incurred during the first nine months of 2007.

***Solovax***

During 2007, we plan to further analyze the data from our phase II clinical trial of SOLOVAX in the treatment of secondary progressive MS, as well as develop a new manufacturing procedure for SOLOVAX™ in Ann Arbor Michigan that more closely resembles the process utilized in the initial published clinical trial of SOLOVAX™. On July 11, 2007 at an opposition hearing in Munich, Germany brought by a competitor, Opexa Therapeutics, Inc., our third auxiliary request to amend claims to our exclusively licensed issued European patent number EP1015025 was denied on the basis of time and as a result such patent was revoked. We intend to vigorously continue to prosecute, defend and protect our pending corresponding U.S. patent application and will be updating the public upon issuance of the written opinion of the European Patent Office associated with such opposition proceeding.

If successful, we may choose to initiate a phase IIb clinical study in this disease. The preclinical and clinical development of SOLOVAX has been primarily financed by grants from the NIH and various non-profit foundations totaling \$5.5 million. Through September 30, 2007, we have incurred approximately \$679,900 of costs related to our development of SOLOVAX of which \$106,900, \$157,700, \$164,300, \$162,800, \$66,900 and \$21,300 was incurred in fiscal 2001, 2002, 2003, 2004, 2005 and 2006, respectively, and \$0 has been incurred during the first nine months of 2007.

***Z-monocys***

In July 2007 licensed the rights for the manufacture, distribution and marketing of products based on patented zinc-monocysteine complexes ("Z-monocys"). We plan to initially develop Z-monocys as an oral treatment for dry age-related macular degeneration ("dry AMD"). Z-monocys has completed a six month double blind randomized placebo controlled trial in 80 dry AMD patients with statistically significant improvements in visual acuity, contrast sensitivity and photorecovery times. A manuscript describing these results has been submitted to a leading peer-reviewed ophthalmic journal. David A. Newsome, M.D., the inventor of Z-monocys recently joined Pipex as Chief Scientific Officer. Dr. Newsome is credited with first observing zinc dyshomeostasis in macular degeneration and conducted and published the first controlled trial of high dose oral zinc for AMD while he was Head of the

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Retinal Disease Section of the NEI. Through September 30, 2007, we have incurred approximately \$154,000 of costs related to our development of Z-monocys of which all has been incurred during the first nine months of 2007.

### ***EFFIRMA (oral flupirtine)***

Through September 30, 2007, we have incurred approximately \$85,000 of costs related to our development of EFFIRMA, all of which was incurred during the three months ended September 30, 2007.

Assuming we are successful in receiving the gross proceeds from the exercise of the registered warrants, we believe we currently have sufficient capital to fund development activities of COPREXA, TRIMESTA, anti-CD4 802-2, CORRECTA, SOLOVAX, Z-monocys and EFFIRMA during 2007 and 2008. Assuming our NDA for COPREXA is filed, accepted and ultimately approved for market in 2008, we will generate cash flow from the sales of COPREXA. However, if our business does not generate any cash flow, we will need to raise additional capital to continue development of the product beyond 2009. To the extent additional capital is not available when we need it, we may be forced to sublicense our rights to our product candidates, abandon our development efforts altogether, or lose our licenses to our product candidates, any of which would have a material adverse effect on the prospects of our business. See also the risks identified under the section entitled "Risk Factors" in this report.

### **Additional Licenses**

We may enter into additional license agreements relating to new drug candidates.

### **ITEM 3. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer, as appropriate, to allow for timely decisions regarding required disclosure. As required by Commission Rule 13a-15(b), the company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Report. Based on the foregoing, the Company's Chief Executive Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

There has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II—OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Not applicable.

**ITEM 1A. RISK FACTORS**

An investment in our securities is highly speculative and involves a high degree of risk. Therefore, in evaluating us and our business you should carefully consider the risks set forth below, which are only a few of the risks associated with investing in our common stock. You should be in a position to risk the loss of your entire investment.

**Risks Relating to Our Business**

*We are a development stage company. We currently have no product revenues and will need to raise additional capital to operate our business.*

We are a development stage company that has experienced significant losses since inception and has a significant accumulated deficit. We expect to incur additional operating losses in the future and expect our cumulative losses to increase. To date, we have generated no product revenues. As of September 30, 2007, we have expended approximately \$14.2 million on a consolidated basis acquiring and developing our current product candidates. Until such time as we receive approval from the FDA and other regulatory authorities for our product candidates, we will not be permitted to sell our drugs and will not have product revenues. Therefore, for the foreseeable future we will have to fund all of our operations and capital expenditures from equity and debt offerings, cash on hand, licensing fees, and grants. We will need to seek additional sources of financing and such additional financing may not be available on favorable terms, if at all. If we do not succeed in raising additional funds on acceptable terms, we may be unable to complete planned pre-clinical and clinical trials or obtain approval of our product candidates from the FDA and other regulatory authorities. In addition, we could be forced to discontinue product development, reduce or forego sales and marketing efforts, and forego attractive business opportunities. Any additional sources of financing will likely involve the issuance of our equity or debt securities, which will have a dilutive effect on our stockholders.

*We are not currently profitable and may never become profitable.*

We have a history of losses and expect to incur substantial losses and negative operating cash flow for the foreseeable future. Even if we succeed in developing and commercializing one or more of our product candidates, we expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to continue to incur significant operating and capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future as we do the following:

- continue to undertake pre-clinical development and clinical trials for our product candidates;
- seek regulatory approvals for our product candidates;
- implement additional internal systems and infrastructure;
- lease additional or alternative office facilities; and
- hire additional personnel, including members of our management team.

We also expect to experience negative cash flow for the foreseeable future as we fund our technology development with capital expenditures. As a result, we will need to generate significant revenues in order to achieve and maintain profitability. We may not be able to generate these revenues or achieve profitability in the future. Our failure to achieve or maintain profitability could negatively impact the value of our common stock and underlying securities.

*We have a limited operating history on which investors can base an investment decision.*

We are a development-stage company and have not demonstrated our ability to perform the functions necessary for the successful commercialization of any of our product candidates. The successful commercialization of our product candidates will require us to perform a variety of functions, including:

- continuing to undertake pre-clinical development and clinical trials;
- participating in regulatory approval processes;
- formulating and manufacturing products; and
- conducting sales and marketing activities.

Our operations have been limited to organizing and staffing our company, acquiring, developing, and securing our proprietary technology, and undertaking pre-clinical trials and Phase I/II, and Phase II and Phase III clinical trials of our principal product candidates. These operations provide a limited basis for you to assess our ability to commercialize our product candidates and the advisability of investing in our securities.

*We may not obtain the necessary U.S. or worldwide regulatory approvals to commercialize our product(s).*

We will need FDA approval to commercialize our product candidates in the U.S. and approvals from equivalent regulatory authorities in foreign jurisdictions to commercialize our product candidates in those jurisdictions. In order to obtain FDA approval for any of our product candidates, we must submit to the FDA a new drug application, or “NDA,” demonstrating that the product candidate is safe for humans and effective for its intended use and that the product candidate can be consistently manufactured and is stable. This demonstration requires significant research and animal tests, which are referred to as “pre-clinical studies,” human tests, which are referred to as “clinical trials” as well as the ability to manufacture the product candidate, referred to as “chemistry manufacturing control” or “CMC.” We will also need to file additional investigative new drug applications and protocols in order to initiate clinical testing of our drug candidates in new therapeutic indications and delays in obtaining required FDA and institutional review board approvals to commence such studies may delay our initiation of such planned additional studies.

Satisfying the FDA’s regulatory requirements typically takes many years, depending on the type, complexity, and novelty of the product candidate, and requires substantial resources for research, development, and testing. We cannot predict whether our research and clinical approaches will result in drugs that the FDA considers safe for humans and effective for indicated uses. The FDA has substantial discretion in the drug approval process and may require us to conduct additional pre-clinical and clinical testing or to perform post-marketing studies. For example, COPREXA, our lead product has completed clinical trials under funding from the FDA’s orphan products group for the treatment of initially presenting neurologic Wilson’s disease. We cannot give any assurances for the prospects for regulatory filings in the treatment of neurologic Wilson’s disease, including filing an NDA for COPREXA for this indication with the FDA during November 2007 and that such NDA will be accepted for filing by the FDA and/or that the FDA will agree with our analysis of data supporting the safety, clinical efficacy, manufacturing, stability, therapeutic utility and other regulatory requirements necessary for COPREXA to be approved for use in neurologically presenting Wilson’s disease or that even if approved for initial indication, that we will be able to conduct and complete necessary initial and registration clinical trials required to support and receive FDA approval for a Supplemental New Drug Application to market COPREXA for the treatment of Alzheimer’s disease or other disease indications, such as, idiopathic pulmonary fibrosis, for example.

The approval process may also be delayed by changes in government regulation, future legislation or administrative action, or changes in FDA policy that occur prior to or during our regulatory review. Delays in obtaining regulatory approvals may do the following:

- delay commercialization of, and our ability to derive product revenues from, our product candidates;
- impose costly procedures on us; and
- diminish any competitive advantages that we may otherwise enjoy.

Even if we comply with all FDA requests, the FDA may ultimately reject one or more of our NDAs. We cannot be sure that we will ever obtain regulatory clearance for our product candidates. Failure to obtain FDA approval of any of our product candidates will severely undermine our business by reducing our number of salable products and, therefore, corresponding product revenues.

In foreign jurisdictions, we must receive approval from the appropriate regulatory authorities before we can commercialize our drugs. Foreign regulatory approval processes generally include all of the risks associated with the FDA approval procedures described above. We cannot assure you that we will receive the approvals necessary to commercialize our product candidate for sale outside the United States.

***We may not be able to retain rights licensed to us by others to commercialize key products and may not be able to establish or maintain the relationships we need to develop, manufacture, and market our products.***

We currently rely on an exclusive worldwide license agreement with the University of Michigan relating to various uses of COPREXA<sup>TM</sup>. We also have an exclusive license agreement with the McLean Hospital relating to the use of EFFIRMA<sup>TM</sup> to treat fibromyalgia syndrome; an exclusive license agreement with Thomas Jefferson University relating to our anti-CD4 inhibitors; an exclusive license agreement with the Regents of the University of California relating to our TRIMESTA<sup>TM</sup> technology; an exclusive license agreement with the Children's Hospital-Boston relating to our CORRECTA<sup>TM</sup> technology and an exclusive option agreement to license our T-cell vaccine program from the University of Southern California (USC) which expires during December 2007. Each of these agreements requires us to use our best efforts to commercialize each of the technologies as well as meet certain diligence requirements and timelines in order to keep the license agreement in effect. In the event we are not able to meet our diligence requirements, we may not be able to retain the rights granted under our agreements or renegotiate our arrangement with these institutions on reasonable terms, or at all.

Furthermore, we currently have very limited product development capabilities, limited marketing or sales capabilities. For us to research, develop, and test our product candidates, we would need to contract with outside researchers, in most cases those parties that did the original research and from whom we have licensed the technologies.

We can give no assurances that any of our issued patents licensed to us or any of our other patent applications will provide us with significant proprietary protection or be of commercial benefit to us. Furthermore, the issuance of a patent is not conclusive as to its validity or enforceability, nor does the issuance of a patent provide the patent holder with freedom to operate without infringing the patent rights of others.

***Developments by competitors may render our products or technologies obsolete or non-competitive.***

Companies that currently sell or are developing both generic and proprietary pharmaceutical compounds to treat central-nervous-system, inflammatory, autoimmune and fibrotic diseases include: Pfizer, Inc., Aton Pharma, GlaxoSmithKline Pharmaceuticals, Shire Pharmaceuticals, Plc., Merck & Co., Eli Lilly & Co., Serono, SA, Biogen Idec, Inc., Achillion, Ltd., Active Biotech, Inc., Panteri Biosciences, Meda, Merrimack Pharmaceuticals, Inc., Schering AG, Forest Laboratories, Inc., Attenuon, LLC, Cypress Biosciences, Inc., Axcan Pharma, Inc., Teva Pharmaceuticals, Inc., Intermune, Inc. Fibrogen, Inc., Rare Disease Therapeutics, Inc., Prana Biotechnology, Inc., Merz & Co., AstraZeneca Pharmaceuticals, Inc., Chiesi Pharmaceuticals, Inc., Targacept, Inc., and Johnson & Johnson, Inc. Alternative technologies or alternative delivery or dosages of already approved therapies



are being developed to treat autoimmune inflammatory, fibrotic, Alzheimer's and Wilson's diseases, several of which may be approved or are in early and advanced clinical trials, such as pirfenidone, milnacipram, Actimmune™ and other interferon preparations. Unlike us, many of our competitors have significant financial and human resources. In addition, academic research centers may develop technologies that compete with our CORRECTA, TRIMESTA, zinc-monocysteine, anti-CD4 inhibitors, EFFIRMA and COPREXA technologies. We are aware that other companies are developing competitive anti-copper therapies that are in various stages of clinical trials or have been approved by regulatory authorities. For example, trientine, d-penicillamine and zinc based therapies, all FDA approved anti-copper agents have been or are being tested in various treatment regimens for the treatment of Wilson's disease. Should clinicians or regulatory authorities view these therapeutic regimens as or more effective than COPREXA in the treatment of neurologic Wilson's disease, this might delay or prevent us from obtaining regulatory approval for COPREXA, or it might prevent us from obtaining favorable reimbursement rates from payors, such as Medicare, Medicaid and private insurers.

***We may not succeed in enforcing our orphan drug designations.***

COPREXA™ has been designated by the FDA as an "orphan drug" for the treatment of Wilson's disease patients presenting with neurologic complications. CORRECTA™ has also been designated by the FDA as an "orphan drug" for the treatment of pouchitis patients. We intend to file for "orphan drug" designations in the EMEA (the European equivalent of the FDA) for both COPREXA™ and CORRECTA™ for similar uses. Pursuant to our agreements with our scientific inventors and universities, we have acquired these designations. Orphan drug designation is an important element of our competitive strategy because there are no composition of matter patents for COPREXA™, TRIMESTA™ or CORRECTA™. Any company that obtains the first FDA approval for a designated orphan drug for a rare disease generally receives marketing exclusivity for use of that drug for the designated condition for a period of seven years in the United States and ten years in the European Union.

To be successful in enforcing this designation, our new drug application would need to be the first NDA approved to use COPREXA™ to treat Wilson's disease. While we are not aware of any other companies that have sought orphan drug designation for COPREXA™ or its active ingredient, tetrathiomolybdate, for this indication, other companies may in the future seek it and may obtain FDA marketing approval before we do. In addition, the FDA may permit other companies to market a form of tetrathiomolybdate to treat Wilson's disease patients with neurologic complication if their product demonstrates clinical superiority. This could create a more competitive market for us.

***Competitors could develop and gain FDA approval of our products for a different indication.***

A competitor could develop our products in a similar format, but for a different indication. For example, other companies could manufacture and develop COPREXA™ and its active ingredient, tetrathiomolybdate, and secure approvals for different indications. We are aware that a potential competitor has an exclusive license from the University of Michigan (UM) to an issued U.S. patent that relates to the use of tetrathiomolybdate to treat angiogenic diseases (the "Angiogenic Patent") and is currently in phase I and phase II clinical trials for the treatment of various forms of cancer. To our knowledge, this competitor and UM have filed additional patent applications claiming various analog structures and formulations of tetrathiomolybdate to treat various diseases. While our use of COPREXA™ and its active ingredient, tetrathiomolybdate, is in a more advanced state of clinical development, having completed two pivotal clinical trials, we cannot predict whether or not one or more patent applications corresponding to the Angiogenic Patent will be filed or if any U.S. patents will be issued which might prevent us from expanding the commercial applications of COPREXA™. Further, we cannot predict whether our competitor might seek to develop their version of tetrathiomolybdate for Wilson's disease and file for FDA or EMEA approval before us and saturate the market. We also cannot predict whether, if issued, any patent corresponding to the Angiogenic Patent may prevent us from conducting our business or result in lengthy and costly litigation or the need for a license. Furthermore, if we need to obtain a license to these or other patents in order to

conduct our business, we may find that it is not available to us on commercially reasonable terms, or is not available to us at all.

If the FDA approves other tetrathiomolybdate products to treat indications other than those covered by our issued or pending patent applications, physicians may elect to prescribe a competitor's tetrathiomolybdate to treat Wilson's disease—this is commonly referred to as "off-label" use. While under FDA regulations a competitor is not allowed to promote off-label uses of its product, the FDA does not regulate the practice of medicine and, as a result, cannot direct physicians as to which source it should use for the tetrathiomolybdate they prescribe to their patients. Consequently, we might be limited in our ability to prevent off-label use of a competitor's tetrathiomolybdate to treat Wilson's disease or inflammatory or fibrotic disease, even if we have orphan drug exclusivity. Our competitor might seek FDA or EMEA approval to market tetrathiomolybdate for any therapeutic indication, including Wilson's disease or idiopathic pulmonary fibrosis (IPF). If we are not able to obtain and enforce these patents, a competitor could use tetrathiomolybdate for a treatment or use not covered by any of our patents.

***We rely primarily on method patents and patent applications and various regulatory exclusivities to protect the development of our technologies, and our ability to compete may decrease or be eliminated if we are not able to protect our proprietary technology.***

Our competitiveness may be adversely affected if we are unable to protect our proprietary technologies. Other than anti-CD4 802-2 and zinc-monocysteine, there are no composition of matter patents for TRIMESTA™, EFFIRMA™, CORRECTA™, Solovax, COPREXA™ or their respective active ingredients estriol, flupirtine, clotrimazole and tetrathiomolybdate. Additionally, we do not have an issued patent for COPREXA™'s use to treat Wilson's disease, although we do have Orphan Drug Designation for this indication. Orphan Drug Designation provides protection for seven years of marketing exclusivity for that product in that disease indication in the U.S. We also expect to rely on patent protection from an issued U.S. Patent for the use of COPREXA™ and related compounds to treat inflammatory and fibrotic diseases (U.S. Patent No 6,855,340) and we have received a notice of allowance for the use of COPREXA™ and related compounds to treat Alzheimer's disease. Both of these patents have been exclusively licensed to us. We have also filed various pending patent applications which cover various formulations, packaging, distribution & monitoring methods for COPREXA™. We rely on issued patent and pending patent applications for use of TRIMESTA to treat MS (issued U.S. Patent No. 6,936,599) and various other therapeutic indications which have been exclusively licensed to us. We have also exclusively licensed an issued patent for the treatment of fibromyalgia with EFFIRMA and have pending patent applications for our uses of CORRECTA.

We also expect to rely on regulatory exclusivities, such as the Orphan Drug Designation with the FDA and EMEA ("Orphan Drug") to protect COPREXA, CORRECTA and our other future products for certain therapeutic indications. Orphan Drug protection provides for seven years of marketing exclusivity for that disease indication in the U.S. and ten years of marketing exclusivity for that disease indication in Europe. We have received an Orphan Drug Designation for the use of CORRECTA to treat pouchitis as well as an Orphan Drug Designation for the use of COPREXA to treat neurologically presenting Wilson's disease and are in the process of filing similar designations in Europe. Orphan Drug Designation is an important element of our competitive strategy for COPREXA and CORRECTA. To be successful in enforcing this designation, our NDA would need to be the first NDA approved to use COPREXA and CORRECTA for that indication. While we are not aware of any other companies that have sought orphan drug designation for COPREXA and CORRECTA for any indication, other companies may in the future seek it and may obtain FDA marketing approval before we do.

After the Orphan Drug exclusivity period expires, assuming our patents are validly issued, we still expect to rely on our issued and pending method of use patent applications to protect our proprietary technology with respect to the development of COPREXA, TRIMESTA and CORRECTA. The patent positions of pharmaceutical companies are uncertain and may involve complex legal and factual questions. We may incur significant expense in protecting our intellectual property and defending or

assessing claims with respect to intellectual property owned by others. Any patent or other infringement litigation by or against us could cause us to incur significant expense and divert the attention of our management.

We may also rely on the United States Drug Price Competition and Patent Term Restoration Act, commonly known as the "Hatch-Waxman Amendments," to protect some of our current product candidates, specifically COPREXA, TRIMESTA, Anti-CD4 802-2, EFFIRMA and other future product candidates we may develop. Once a drug containing a new molecule is approved by the FDA, the FDA cannot accept an abbreviated NDA for a generic drug containing that molecule for five years, although the FDA may accept and approve a drug containing the molecule pursuant to an NDA supported by independent clinical data. Recent amendments have been proposed that would narrow the scope of Hatch-Waxman exclusivity and permit generic drugs to compete with our drug.

Others may file patent applications or obtain patents on similar technologies or compounds that compete with our products. We cannot predict how broad the claims in any such patents or applications will be, and whether they will be allowed. Once claims have been issued, we cannot predict how they will be construed or enforced. We may infringe intellectual property rights of others without being aware of it. If another party claims we are infringing their technology, we could have to defend an expensive and time consuming lawsuit, pay a large sum if we are found to be infringing, or be prohibited from selling or licensing our products unless we obtain a license or redesign our product, which may not be possible.

We also rely on trade secrets and proprietary know-how to develop and maintain our competitive position. Some of our current or former employees, consultants, or scientific advisors, or current or prospective corporate collaborators, may unintentionally or willfully disclose our confidential information to competitors or use our proprietary technology for their own benefit. Furthermore, enforcing a claim alleging the infringement of our trade secrets would be expensive and difficult to prove, making the outcome uncertain. Our competitors may also independently develop similar knowledge, methods, and know-how or gain access to our proprietary information through some other means.

*We may fail to retain or recruit necessary personnel, and we may be unable to secure the services of consultants.*

As of September 30, 2007, we have 20 full-time employees. We have also engaged regulatory consultants to advise us on our dealings with the FDA and other foreign regulatory authorities. We intend to recruit certain key executive officers, including a Chief Financial Officer and other key executive officers. Our future performance will depend in part on our ability to successfully integrate newly hired executive officers into our management team and our ability to develop an effective working relationship among senior management.

Certain of our officers, directors, (including Mr. Stergis, our Vice Chairman of the Board and former Chief Operating Officer, Dr. Rudick, a director and former Chief Medical Officer, Jeffrey Kraws, a director and former VP of Business Development, Jeffrey Wolf, a director, and Dr. Kuo, a director) scientific advisors, and consultants serve as officers, directors, scientific advisors, or consultants of other biopharmaceutical or biotechnology companies which might be developing competitive products to ours. None of our directors or officers, are obligated under any agreement or understanding with us to make any additional products or technologies available to us. Similarly, we can give no assurances, and we do not expect and shareholders should not expect, that any biomedical or pharmaceutical product or technology identified by any of our directors or affiliates in the future would be made available to us.

We can expect this to also be the case with personnel that we engage in the future. We can give no assurances that any such other companies will not have interests that are in conflict with our interests.

Losing key personnel or failing to recruit necessary additional personnel would impede our ability to attain our development objectives. There is intense competition for qualified personnel in the drug-

development field, and we may not be able to attract and retain the qualified personnel we would need to develop our business.

We rely on independent organizations, advisors, and consultants to perform certain services for us, including handling substantially all aspects of regulatory approval, clinical management, manufacturing, marketing, and sales. We expect that this will continue to be the case. Such services may not always be available to us on a timely basis when we need them.

***We may experience difficulties in obtaining sufficient quantities of our products or other compounds.***

In order to successfully commercialize our product candidates, we must be able to manufacture our products in commercial quantities, in compliance with regulatory requirements, at acceptable costs, and in a timely manner. Manufacture of the types of biopharmaceutical products that we propose to develop present various risks. For example, manufacture of the active ingredient in COPREXA is a complex process that can be difficult to scale up for purposes of producing large quantities. This process can also be subject to delays, inefficiencies, and poor or low yields of quality products. Furthermore, the active ingredient of COPREXA is known to be subject to a loss of potency as a result of prolonged exposure to moisture and other normal atmospheric conditions. We are developing proprietary formulations and specialty packaging solutions to overcome this stability issue, but we can give no assurances that we will be successful in meeting the stability requirements required for approval by regulatory authorities such as the FDA or the requirements that our new proprietary formulations and drug product will demonstrate satisfactory comparability to less stable formulations utilized in prior clinical trials. We may experience delays in demonstrating satisfactory stability requirements and drug product comparability requirements that could delay filing, acceptance or approval of our planned NDA for COPREXA.

Additionally, our SOLOVAX T-cell vaccine technology is complex to manufacture. The vaccine is manufactured through the procurement of a patient's own T-cells derived from the patient's plasma. This manufacturing process involves incubation of T-cells, irradiation and refrigeration of the cells. We plan to develop a revised manufacturing procedure which will streamline quality control of the vaccine.

Historically, our manufacturing has been handled by contract manufacturers and compounding pharmacies. We can give no assurances that we will be able to continue to use our current manufacturer or be able to establish another relationship with a manufacturer quickly enough so as not to disrupt commercialization of any of our products, or that commercial quantities of any of our products, if approved for marketing, will be available from contract manufacturers at acceptable costs.

In addition, any contract manufacturer that we select to manufacture our product candidates might fail to maintain a current "good manufacturing practices" (cGMP) manufacturing facility. During January 2007, we established a commercial manufacturing facility for our product candidates in Ann Arbor, MI and we have hired and trained our employees to comply with the extensive regulations applicable to such a facility. Upon FDA inspection our facility and/or cGMP procedures may require changes that could delay our intended product launch of COPREXA and other products that might develop.

The cost of manufacturing certain product candidates may make them prohibitively expensive. In order to successfully commercialize our product candidates we may be required to reduce the costs of production, and we may find that we are unable to do so. We may be unable to obtain, or may be required to pay high prices for compounds manufactured or sold by others that we need for comparison purposes in clinical trials and studies for our product candidates.

***Clinical trials are very expensive, time-consuming, and difficult to design and implement.***

Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time-consuming. We estimate that clinical trials of our product candidates would take at least several years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause

us to abandon or repeat clinical trials. Commencement and completion of clinical trials may be delayed by several factors, including:

- unforeseen safety issues;
- determination of dosing;
- lack of effectiveness during clinical trials;
- slower than expected rates of patient recruitment;
- inability to monitor patients adequately during or after treatment; and
- inability or unwillingness of medical investigators to follow our clinical protocols.

In addition, we or the FDA may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in our submissions or conduct of our trials.

***The results of our clinical trials may not support our product candidate claims.***

Even if our clinical trials are completed as planned, we cannot be certain that the results will support our product-candidate claims. Success in pre-clinical testing and phase II clinical trials does not ensure that later phase II or phase III clinical trials will be successful. We cannot be sure that the results of later clinical trials would replicate the results of prior clinical trials and pre-clinical testing. Clinical trials may fail to demonstrate that our product candidates are safe for humans and effective for indicated uses. Any such failure could cause us to abandon a product candidate and might delay development of other product candidates. Any delay in, or termination of, our clinical trials would delay our obtaining FDA approval for the affected product candidate and, ultimately, our ability to commercialize that product candidate.

***Physicians and patients may not accept and use our technologies.***

Even if the FDA approves our product candidates, physicians and patients may not accept and use them. Acceptance and use of our product will depend upon a number of factors, including the following:

- the perception of members of the health care community, including physicians, regarding the safety and effectiveness of our drugs;
- the cost-effectiveness of our product relative to competing products;
- availability of reimbursement for our products from government or other healthcare payers; and
- the effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any.

Because we expect sales of our current product candidates, if approved, to generate substantially all of our product revenues for the foreseeable future, the failure of any of these drugs to find market acceptance would harm our business and could require us to seek additional financing.

***We depend on researchers who are not under our control.***

We depend upon independent investigators and scientific collaborators, such as universities and medical institutions, to conduct our pre-clinical and clinical trials under agreements with us. These collaborators are not our employees and we cannot control the amount or timing of resources that they devote to our programs or the timing of their procurement of clinical-trial data. They may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking those programs ourselves. Failing to devote sufficient time and resources to our drug-development programs, or substandard performance, could result in delay of any FDA applications and our commercialization of the drug candidate involved.

These collaborators may also have relationships with other commercial entities, some of which may compete with us. Our collaborators assisting our competitors at our expense, could harm our competitive position. For example, we depend on scientific collaborators for our TRIMESTA<sup>TM</sup>, SOLOVAX<sup>TM</sup>, CORRECTA<sup>TM</sup>, anti-CD4 802-2, EFFIRMA<sup>TM</sup> and COPREXA<sup>TM</sup> development programs. Specifically, all of the clinical trials have been conducted under physician-sponsored investigational new drug applications (INDs), not corporate-sponsored INDs. We are also dependent on government and private grants to fund certain of our clinical trials for our product candidates. If we are unable to maintain these grants, we might be forced to scale back development of these product candidates. We have experienced difficulty in collecting the data or transferring these programs to corporate-sponsored INDs. Additionally, we are aware that all of our scientific collaborators also act as advisors to our competitors.

***We have no experience selling, marketing, or distributing products and do not have the capability to do so.***

We currently have no sales, marketing, or distribution capabilities. We do not anticipate having resources in the foreseeable future to allocate to selling and marketing our proposed products. Our success will depend, in part, on whether we are able to enter into and maintain collaborative relationships with a pharmaceutical or a biotechnology company charged with marketing one or more of our products. We may not be able to establish or maintain such collaborative arrangements or to commercialize our products in foreign territories, and even if we do, our collaborators may not have effective sales forces.

If we do not, or are unable to, enter into collaborative arrangements to sell and market our proposed products, we will need to devote significant capital, management resources, and time to establishing and developing an in-house marketing and sales force with technical expertise. We may be unsuccessful in doing so.

***If we fail to maintain positive relationships with particular individuals, we may be unable to successfully develop our product candidates, conduct clinical trials, and obtain financing.***

If we fail to maintain positive relationships with members of our management team or if these individuals decrease their contributions to our company, our business could be adversely impacted. We do not carry key employee insurance policies for any of our key employees.

We also rely greatly on employing and retaining other highly trained and experienced senior management and scientific personnel. The competition for these and other qualified personnel in the biotechnology field is intense. If we are not able to attract and retain qualified scientific, technical, and managerial personnel, we probably will be unable to achieve our business objectives.

***We may not be able to compete successfully for market share against other drug companies.***

The markets for our product candidates are characterized by intense competition and rapid technological advances. If our product candidates receive FDA approval, they will compete with existing and future drugs and therapies developed, manufactured, and marketed by others. Competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues and our business will suffer.

We will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies, or other public and private research organizations. Many of these competitors have therapies to treat autoimmune fibrotic and central nervous system diseases already approved or in development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research-and-development programs than we do, have substantially greater financial resources than we do, and have significantly greater experience in the following areas:

- developing drugs;
- undertaking pre-clinical testing and human clinical trials;
- obtaining FDA and other regulatory approvals of drugs;
- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

***We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights, as well as costs associated with frivolous lawsuits.***

If any other person files patent applications, or is issued patents, claiming technology also claimed by us in pending applications, we may be required to participate in interference proceedings in the U.S. Patent and Trademark Office to determine priority of invention. We, or our licensors, may also need to participate in interference proceedings involving our issued patents and pending applications of another entity.

We cannot guarantee that the practice of our technologies will not conflict with the rights of others. In some foreign jurisdictions, we could become involved in opposition proceedings, either by opposing the validity of another's foreign patent or by persons opposing the validity of our foreign patents.

We may also face frivolous litigation or lawsuits from various competitors or from litigious securities attorneys. The cost to us of any litigation or other proceeding relating to these areas, even if resolved in our favor, could be substantial and could distract management from our business. Uncertainties resulting from initiation and continuation of any litigation could have a material adverse effect on our ability to continue our operations.

***If we infringe the rights of others we could be prevented from selling products or forced to pay damages.***

If our products, methods, processes, and other technologies are found to infringe the proprietary rights of other parties, we could be required to pay damages, or we may be required to cease using the technology or to license rights from the prevailing party. Any prevailing party may be unwilling to offer us a license on commercially acceptable terms.

***Our ability to generate product revenues will be diminished if our drugs sell for inadequate prices or patients are unable to obtain adequate levels of reimbursement.***

Our ability to commercialize our drugs, alone or with collaborators, will depend in part on the extent to which reimbursement is available from government and health administration authorities, private health maintenance organizations, health insurers, and other healthcare payers.

Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Healthcare payers, including Medicare, are challenging the prices charged for medical products and services. Government and other healthcare payers increasingly attempt to contain healthcare costs by limiting both coverage and the level of reimbursement for drugs. Even if our product candidates are approved by the FDA, insurance coverage may not be available, or may be inadequate, to cover the cost of our drugs. This could affect our ability to commercialize our products.

***We may not be able to obtain adequate insurance coverage against product liability claims.***

Our business exposes us to the product liability risks inherent in the testing, manufacturing, marketing, and sale of human therapeutic technologies and products. Even if it is available, product liability insurance for the pharmaceutical and biotechnology industry generally is expensive. Adequate insurance coverage may not be available at a reasonable cost.

**Risks Relating to Our Stock**

*We will seek to raise additional funds in the future, which may be dilutive to shareholders or impose operational restrictions.*

We expect to seek to raise additional capital in the future to help fund development of our proposed products. If we raise additional capital through the issuance of equity or debt securities, the percentage ownership of our current shareholders will be reduced. We may also enter into strategic transactions that may be dilutive. Our shareholders may experience additional dilution in net book value per share and any additional equity securities may have rights, preferences and privileges senior to those of the holders of our common stock. If we cannot raise additional funds, we will have to delay development activities of our products candidates.

*We are controlled by our current officers, directors, and principal stockholders.*

Currently, our directors, executive officers, and principal stockholders beneficially own a majority of our common stock. As a result, they will be able to exert substantial influence over the election of our board of directors and the vote on issues submitted to our stockholders.

*Our shares of common stock are thinly traded, so stockholders may be unable to sell at or near ask prices or at all if they need to sell shares to raise money or otherwise desire to liquidate their shares.*

Our common stock has from time to time been “thinly-traded,” meaning that the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give stockholders any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

*Our compliance with the Sarbanes-Oxley Act and SEC rules concerning internal controls may be time consuming, difficult and costly.*

Although individual members of our management team have experience as officers of publicly traded companies, much of that experience came prior to the adoption of the Sarbanes-Oxley Act of 2002. It may be time consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by Sarbanes-Oxley. We may need to hire additional financial reporting, internal controls and other finance staff in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with Sarbanes-Oxley’s internal controls requirements, we may not be able to obtain the independent accountant certifications that Sarbanes-Oxley Act requires publicly-traded companies to obtain.

*We cannot assure you that the common stock will be liquid or that it will remain listed on a securities exchange.*

We cannot assure you that we will be able to maintain the listing standards of the American Stock Exchange. The American Stock Exchange requires companies to meet certain listing criteria including certain minimum prices per share. We may not be able to maintain such minimum prices or may be required to effect a reverse stock split to maintain such minimum prices.



*There may be issuances of shares of preferred stock in the future.*

Although we currently do not have preferred shares outstanding, the board of directors could authorize the issuance of a series of preferred stock that would grant holders preferred rights to our assets upon liquidation, the right to receive dividends before dividends would be declared to common stockholders, and the right to the redemption of such shares, possibly together with a premium, prior to the redemption of the common stock. To the extent that we do issue preferred stock, the rights of holders of common stock could be impaired thereby, including without limitation, with respect to liquidation.

*We have never paid dividends.*

We have never paid cash dividends on our common stock and do not anticipate paying any for the foreseeable future.

**Risks Related to Our Industry**

*Government Regulation*

The FDA, comparable foreign regulators and state and local pharmacy regulators impose substantial requirements upon clinical development, manufacture and marketing of pharmaceutical products. These and other entities regulate research and development and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising, and promotion of our products. The drug approval process required by the FDA under the Food, Drug, and Cosmetic Act generally involves:

- Preclinical laboratory and animal tests;
- Submission of an IND, prior to commencing human clinical trials;
- Adequate and well-controlled human clinical trials to establish safety and efficacy for intended use;
- Submission to the FDA of a NDA; and
- FDA review and approval of a NDA.

The testing and approval process requires substantial time, effort, and financial resources, and we cannot be certain that any approval will be granted on a timely basis, if at all.

Preclinical tests include laboratory evaluation of the product candidate, its chemistry, formulation and stability, and animal studies to assess potential safety and efficacy. Certain preclinical tests must be conducted in compliance with good laboratory practice regulations. Violations of these regulations can, in some cases, lead to invalidation of the studies, requiring them to be replicated. In some cases, long-term preclinical studies are conducted concurrently with clinical studies.

We will submit the preclinical test results, together with manufacturing information and analytical data, to the FDA as part of an IND, which must become effective before we begin human clinical trials. The IND automatically becomes effective 30 days after filing, unless the FDA raises questions about conduct of the trials outlined in the IND and imposes a clinical hold, in which case, the IND sponsor and FDA must resolve the matters before clinical trials can begin. It is possible that our submission may not result in FDA authorization to commence clinical trials.

Clinical trials must be supervised by a qualified investigator in accordance with good clinical practice regulations, which include informed consent requirements. An independent Institutional Review Board (“IRB”) at each medical center reviews and approves and monitors the study, and is periodically informed of the study’s progress, adverse events and changes in research. Progress reports are submitted annually to the FDA and more frequently if adverse events occur.

Human clinical trials typically have three sequential phases that may overlap:

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Phase I: The drug is initially tested in healthy human subjects or patients for safety, dosage tolerance, absorption, metabolism, distribution, and excretion.

Phase II: The drug is studied in a limited patient population to identify possible adverse effects and safety risks, determine efficacy for specific diseases and establish dosage tolerance and optimal dosage.

Phase III: When phase II evaluations demonstrate that a dosage range is effective with an acceptable safety profile, phase III trials to further evaluate dosage, clinical efficacy and safety, are undertaken in an expanded patient population, often at geographically dispersed sites.

We cannot be certain that we will successfully complete phase I, phase II, or phase III testing of our product candidates within any specific time period, if at all. Furthermore, the FDA, an IRB or the IND sponsor may suspend clinical trials at any time on various grounds, including a finding that subjects or patients are exposed to unacceptable health risk.

Concurrent with these trials and studies, we also develop chemistry and physical characteristics data and finalize a manufacturing process in accordance with good manufacturing practice ("GMP") requirements. The manufacturing process must conform to consistency and quality standards, and we must develop methods for testing the quality, purity, and potency of the final products. Appropriate packaging is selected and tested, and chemistry stability studies are conducted to demonstrate that the product does not undergo unacceptable deterioration over its shelf-life. Results of the foregoing are submitted to the FDA as part of a NDA for marketing and commercial shipment approval. The FDA reviews each NDA submitted and may request additional information.

Once the FDA accepts the NDA for filing, it begins its in-depth review. The FDA has substantial discretion in the approval process and may disagree with our interpretation of the data submitted. The process may be significantly extended by requests for additional information or clarification regarding information already provided. As part of this review, the FDA may refer the application to an appropriate advisory committee, typically a panel of clinicians. Manufacturing establishments often are inspected prior to NDA approval to assure compliance with GMPs and with manufacturing commitments made in the application.

Submission of a NDA with clinical data requires payment of a fee (for fiscal year 2008, \$1,178,500). In return, the FDA assigns a goal of ten months for issuing its "complete response," in which the FDA may approve or deny the NDA, or require additional clinical data. Even if these data are submitted, the FDA may ultimately decide the NDA does not satisfy approval criteria. If the FDA approves the NDA, the product becomes available for physicians prescription. Product approval may be withdrawn if regulatory compliance is not maintained or safety problems occur. The FDA may require post-marketing studies, also known as phase IV studies, as a condition of approval, and requires surveillance programs to monitor approved products that have been commercialized. The agency has the power to require changes in labeling or prohibit further marketing based on the results of post-marketing surveillance.

Satisfaction of these and other regulatory requirements typically takes several years, and the actual time required may vary substantially based upon the type, complexity and novelty of the product. Government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures on our activities. We cannot be certain that the FDA or other regulatory agencies will approve any of our products on a timely basis, if at all. Success in preclinical or early-stage clinical trials does not assure success in later-stage clinical trials. Data obtained from pre-clinical and clinical activities are not always conclusive and may be susceptible to varying interpretations that could delay, limit or prevent regulatory approval. Even if a product receives regulatory approval, the approval may be significantly limited to specific indications or uses.

Even after regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market. Delays in obtaining, or failures to obtain regulatory approvals would have a material adverse effect on our business.

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Any products manufactured or distributed by us pursuant to FDA approvals are subject to pervasive and continuing FDA regulation, including record-keeping requirements, reporting of adverse experiences, submitting periodic reports, drug sampling and distribution requirements, manufacturing or labeling changes, record-keeping requirements, and compliance with FDA promotion and advertising requirements. Drug manufacturers and their subcontractors are required to register their facilities with the FDA and state agencies, and are subject to periodic unannounced inspections for GMP compliance, imposing procedural and documentation requirements upon us and third-party manufacturers. Failure to comply with these regulations could result, among other things, in suspension of regulatory approval, recalls, suspension of production or injunctions, seizures, or civil or criminal sanctions. We cannot be certain that we or our present or future subcontractors will be able to comply with these regulations.

The FDA regulates drug labeling and promotion activities. The FDA has actively enforced regulations prohibiting the marketing of products for unapproved uses. The FDA permits the promotion of drugs for unapproved uses in certain circumstances, subject to stringent requirements. We and our product candidates are subject to a variety of state laws and regulations which may hinder our ability to market our products. Whether or not FDA approval has been obtained, approval by foreign regulatory authorities must be obtained prior to commencing clinical trials, and sales and marketing efforts in those countries. These approval procedures vary in complexity from country to country, and the processes may be longer or shorter than that required for FDA approval. We may incur significant costs to comply with these laws and regulations now or in the future.

The FDA's policies may change, and additional government regulations may be enacted which could prevent or delay regulatory approval of our potential products. Increased attention to the containment of health care costs worldwide could result in new government regulations materially adverse to our business. We cannot predict the likelihood, nature or extent of adverse governmental regulation that might arise from future legislative or administrative action, either in the U.S. or abroad.

### ***Other Regulatory Requirements***

The U.S. Federal Trade Commission and the Office of the Inspector General of the U.S. Department of Health and Human Services ("HHS") also regulate certain pharmaceutical marketing practices. Government reimbursement practices and policies with respect to our products are important to our success.

We are subject to numerous federal, state and local laws relating to safe working conditions, manufacturing practices, environmental protection, fire hazard control, and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with these laws and regulations. The regulatory framework under which we operate will inevitably change in light of scientific, economic, demographic and policy developments, and such changes may have a material adverse effect on our business.

### ***European Product Approval***

Prior regulatory approval for human healthy volunteer studies (phase I studies) is required in member states of the European Union (E.U.). Summary data from successful phase I studies are submitted to regulatory authorities in member states to support applications for phase II studies. E.U. authorities typically have one to three months (which often may be extended in their discretion) to raise objections to the proposed study. One or more independent ethics committees (similar to U.S. IRBs) review relevant ethical issues.

For E.U. marketing approval, we submit to the relevant authority for review a dossier, or MAA (Market Authorization Application), providing information on the quality of the chemistry, manufacturing and pharmaceutical aspects of the product as well as non-clinical and clinical data.

Approval can take several months to several years, and can be denied, depending on whether additional studies or clinical trials are requested (which may delay marketing approval and involve unbudgeted costs) or regulatory authorities conduct facilities (including clinical investigation site)

inspections and review manufacturing procedures, operating systems and personnel qualifications. In many cases, each drug manufacturing facility must be approved, and further inspections may occur over the product's life. The regulatory agency may require post-marketing surveillance to monitor for adverse effects or other studies. Further clinical studies are usually necessary for approval of additional indications. The terms of any approval, including labeling content, may be more restrictive than expected and could affect the marketability of a product.

Failure to comply with these ongoing requirements can result in suspension of regulatory approval and civil and criminal sanctions. European renewals may require additional data, resulting in a license being withdrawn. E.U. regulators have the authority to revoke, suspend or withdraw approvals, prevent companies and individuals from participating in the drug approval process, request recalls, seize violative products, obtain injunctions to close non-compliant manufacturing plants and stop shipments of violative products.

### ***Pricing Controls***

Pricing for products under approval applications is also subject to regulation. Requirements vary widely between countries and can be implemented disparately intra-nationally. The E.U. generally provides options for member states to control pricing of medicinal products for human use, ranging from specific price-setting to systems of direct or indirect controls on the producer's profitability. U.K. regulation, for example, generally provides controls on overall profits derived from sales to the U.K. National Health Service that are based on profitability targets or a function of capital employed in servicing the National Health Service market. Italy generally utilizes a price monitoring system based on the European average price over the reference markets of France, Spain, Germany and the U.K. Italy typically establishes price within a therapeutic class based on the lowest price for a medicine belonging to that category. Spain generally establishes selling price based on prime cost plus a profit margin within a range established yearly by the Spanish Commission for Economic Affairs.

There can be no assurance that price controls or reimbursement limitations will result in favorable arrangements for our products.

### ***Third-Party Reimbursements***

In the U.S., the E.U. and elsewhere, pharmaceutical sales are dependent in part on the availability and adequacy of reimbursement from third party payers such as governments and private insurance plans. Third party payers are increasingly challenging established prices, and new products that are more expensive than existing treatments may have difficulty finding ready acceptance unless there is a clear therapeutic benefit.

In the U.S., consumer willingness to choose a self-administered outpatient prescription drug over a different drug or other form of treatment often depends on the manufacturer's success in placing the product on a health plan formulary or drug list, which results in lower out-of-pocket costs. Favorable formulary placement typically requires the product to be less expensive than what the health plan determines to be therapeutically equivalent products, and often requires manufacturers to offer rebates. Federal law also requires manufacturers to pay rebates to state Medicaid programs in order to have their products reimbursed by Medicaid. Medicare, which covers most Americans over age 65 and the disabled, has adopted a new insurance regime that will offer eligible beneficiaries' limited coverage for outpatient prescription drugs effective January 1, 2006. The prescription drugs that will be covered under this insurance will be specified on a formulary published by Medicare. As part of these changes, Medicare is adopting new payment formulas for prescription drugs administered by providers, such as hospitals or physicians, that are generally expected to lower reimbursement.

The E.U. generally provides options for member states to restrict the range of medicinal products for which their national health insurance systems provide reimbursement. Member states can opt for a "positive" or "negative" list, with the former listing all covered medicinal products and the latter designating those excluded from coverage. The E.U., the U.K. and Spain have negative lists, while France uses a positive list. Canadian provinces establish their own reimbursement measures. In some

countries, products may also be subject to clinical and cost effectiveness reviews by health technology assessment bodies. Negative determinations in relation to our products could affect prescribing practices. In the U.K., the National Institute for Clinical Excellence (“NICE”) provides such guidance to the National Health Service, and doctors are expected to take it into account when choosing drugs to prescribe. Health authorities may withhold funding from drugs not given a positive recommendation by NICE. A negative determination by NICE may mean fewer prescriptions. Although NICE considers drugs with orphan status, there is a degree of tension on the application of standard cost assessment for orphan drugs, which are often priced higher to compensate for a limited market. It is unclear whether NICE will adopt a more relaxed approach toward the assessment of orphan drugs.

We cannot assure you that any of our products will be considered cost effective, or that reimbursement will be available or sufficient to allow us to sell them competitively and profitably.

#### ***Fraud and Abuse Laws***

The U.S. federal Medicare/Medicaid anti-kickback law and similar state laws prohibit remuneration intended to induce physicians or others either to refer patients, or to acquire or arrange for or recommend the acquisition of health care products or services. While the federal law applies only to referrals, products or services receiving federal reimbursement, state laws often apply regardless of whether federal funds are involved. Other federal and state laws prohibit anyone from presenting or causing to be presented false or fraudulent payment claims. Recent federal and state enforcement actions under these statutes have targeted sales and marketing activities of prescription drug manufacturers. As we begin to market our products to health care providers, the relationships we form, such as compensating physicians for speaking or consulting services, providing financial support for continuing medical education or research programs, and assisting customers with third-party reimbursement claims, could be challenged under these laws and lead to civil or criminal penalties, including the exclusion of our products from federally-funded reimbursement. Even an unsuccessful challenge could cause adverse publicity and be costly to respond to, and thus could have a material adverse effect on our business, results of operations and financial condition. We intend to consult counsel concerning the potential application of these and other laws to our business and to our sales, marketing and other activities to comply with them. Given their broad reach and the increasing attention given them by law enforcement authorities, however, we cannot assure you that some of our activities will not be challenged.

#### ***Patent Restoration and Marketing Exclusivity***

The U.S. Drug Price Competition and Patent Term Restoration Act of 1984 (Hatch-Waxman) permits the FDA to approve Abbreviated New Drug Applications (“ANDAs”) for generic versions of innovator drugs, as well as NDAs with less original clinical data, and provides patent restoration and exclusivity protections to innovator drug manufacturers.

The ANDA process permits competitor companies to obtain marketing approval for drugs with the same active ingredient and for the same uses as innovator drugs, but does not require the conduct and submission of clinical studies demonstrating safety and efficacy. As a result, a competitor could copy any of our drugs and only need to submit data demonstrating that the copy is bioequivalent to gain marketing approval from the FDA.

Hatch-Waxman requires a competitor that submits an ANDA, or otherwise relies on safety and efficacy data for one of our drugs, to notify us and/or our business partners of potential infringement of our patent rights. We and/or our business partners may sue the company for patent infringement, which would result in a 30-month stay of approval of the competitor’s application. The discovery, trial and appeals process in such suits can take several years. If the litigation is resolved in favor of the generic applicant or the challenged patent expires during the 30-month period, the stay is lifted and the FDA may approve the application.

Hatch-Waxman also allows competitors to market copies of innovator products by submitting significantly less clinical data outside the ANDA context. Such applications, known as "505(b)(2) NDAs" or "paper NDAs," may rely on clinical investigations not conducted by or for the applicant and for which the applicant has not obtained a right of reference or use and are subject to the ANDA notification procedures described above.

The law also restores a portion of a product's patent term that is lost during clinical development and NDA review, and provides statutory protection, known as exclusivity, against FDA approval or acceptance of certain competitor applications. Restoration can return up to five years of patent term for a patent covering a new product or its use to compensate for time lost during product development and regulatory review. The restoration period is generally one-half the time between the effective date of an IND and submission of an NDA, plus the time between NDA submission and its approval (subject to the five-year limit), and no extension can extend total patent life beyond 14 years after the drug approval date. Applications for patent term extension are subject to U.S. Patent and Trademark Office ("USPTO") approval, in conjunction with FDA. Approval of these applications takes at least six months, and there can be no guarantee that it will be given at all.

Hatch-Waxman also provides for differing periods of statutory protection for new drugs approved under an NDA. Among the types of exclusivity are those for a "new molecular entity" and those for a new formulation or indication for a previously-approved drug. If granted, marketing exclusivity for the types of products that we are developing, which include only drugs with innovative changes to previously-approved products using the same active ingredient, would prohibit the FDA from approving an ANDA or 505(b)(2) NDA relying on safety and efficacy data for three years. This three-year exclusivity, however, covers only the innovation associated with the original NDA. It does not prohibit the FDA from approving applications for drugs with the same active ingredient but without our new innovative change. These marketing exclusivity protections do not prohibit FDA from approving a full NDA, even if it contains the innovative change.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During our quarter ended September 30, 2007, we issued a total of 117,406 shares of our common stock to a total of three holders of our warrants upon the exercise of those warrants. This offering and sale of shares of common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, these investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, share certificates bearing a legend stating that such shares are restricted. This restriction ensures that these shares will not be immediately redistributed into the market and therefore not be part of a public offering. This offering was done with no general solicitation or advertising by us. Each investor made representations regarding his or her financial sophistication and had an opportunity to ask questions of our management.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

## **ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

10.22 License Agreement between Maine Medical Center and Pipex Pharmaceuticals, Inc.

31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Certification pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

PIPEX PHARMACEUTICALS, INC.

By: /s/ Steve H. Kanzer

Steve H. Kanzer

Chairman & Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)

Date: November 14, 2007