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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

(Mark One)

ý **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

o **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	**13-3808303**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*
3930 Varsity Drive	
Ann Arbor, MI	**48108**
(Address of principal executive offices)	*(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 ý No o

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

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 o No ý

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

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

Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	$	729,646
Accrued liabilities		30,000
Note payable		400,000
Total Current Liabilities		1,159,646
Long Term Liabilities:		
Note payable, less current portion above		600,000
Total Liabilities		1,759,646
Commitments (See Note 5)		
Stockholders' Equity		
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)
Total Stockholders' Equity		7,558,505
Total Liabilities and Stockholders' Equity	$	9,318,151

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**	
Operating Expenses:					
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
Total Operating Expenses	2,172,998	757,600	6,921,908	1,989,289	14,788,069
Loss from Operations	(2,172,998)	(757,600)	(6,921,908)	(1,989,289)	(14,788,069)
Other Income (Expense):					
Interest income	66,041	1	218,298	1	262,880
Interest expense	(13,985)	—	(29,270)	—	(29,270)
Other expense	—	—	—	—	(1,733)
Total Other Income, net	52,056	1	189,028	1	231,877
Net Loss	**$ (2,120,942)**	**$ (757,599)**	**$ (6,732,880)**	**$ (1,989,288)**	**$ (14,556,192)**
Less: Preferred stock dividend—subsidiary	—	—	—	(190,250)	(951,250)
Less: Merger dividend	—	—	(12,409,722)	—	(12,409,722)
Net Loss Applicable to Common Shareholders	$ (2,120,942)	$ (757,599)	$ (19,142,602)	$ (2,179,538)	$ (27,917,164)
Net Loss Per Share—Basic and Diluted	$ (0.12)	$ (0.50)	$ (1.12)	$ (1.43)	$ (7.75)
Weighted average number of shares outstanding during the period—basic and diluted	17,110,581	1,527,137	17,042,690	1,527,137	3,600,572

See accompanying notes to consolidated financial statements

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

Consolidated Statements of Cash Flows
(Unaudited)

	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006	For the Period from January 8, 2001 (Inception) to September 30, 2007
Cash Flows From Operating Activities:			
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
Net Cash Used In Operating Activities	(4,379,626)	(1,741,795)	(10,133,539)
Cash Flows From Investing Activities:			
Purchases of property and equipment	(1,743,313)	(30,633)	(1,789,146)
Cash paid to acquire shell in reverse merger	—	—	(665,000)
Net Cash Used In Investing Activities	(1,743,313)	(30,633)	(2,454,146)
Cash Flows From Financing Activities:			
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)

Net Cash Provided By Financing Activities	1,282,841	1,080,349	19,940,013
Net increase (decrease) in cash	(4,840,098)	(692,079)	7,352,328
Cash at beginning of period	12,192,426	1,157,790	—
Cash at end of period	$ 7,352,328	$ 465,711	$ 7,352,328
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 29,270	$ —	$ 29,270
Cash paid for taxes	$ —	$ —	$ —
Supplemental disclosure of non-cash investing and financing activities:			
EPI issued 825,000 shares of common stock to acquire a 91.61% ownershiop in CD4	$ —	$ —	$ —
Solovax transferred 96.9% of its equity to Pipex	$ —	$ —	$ —
EPI transferred 65.47% of its equity to Pipex	$ —	$ —	$ —
Exchange of EPI perferred 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

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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

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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.

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Notes to Consolidated Financial Statements
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(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:

Description	Estimated Useful Life
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

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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 Index to, 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.

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(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