TOMPKINS FINANCIAL CORP
Form 11-K
June 28, 2013

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

FORM 11-K

FOR ANNUAL REPORTS OF EMPLOYEE STOCK
PURCHASE, SAVINGS AND SIMILAR PLANS
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal year ended: December 31, 2012

o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number: 1-12709

TOMPKINS FINANCIAL CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

(Full title of plan)

TOMPKINS FINANCIAL CORPORATION
(Name of issuer of the securities held pursuant to the plan)

P.O. Box 460, The Commons
Ithaca, New York 14851
(607) 273-3210
(Address of principal executive offices)

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

ITHACA, NEW YORK

AUDITED FINANCIAL STATEMENTS

SUPPLEMENTAL SCHEDULES

AND

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

DECEMBER 31, 2012 AND 2011

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee
Tompkins Financial Corporation
Employee Stock Ownership Plan

We have audited the accompanying statements of net assets available for benefits of the Tompkins Financial Corporation Employee Stock Ownership Plan as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2012 and 2011, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules, as listed in the accompanying contents page, are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. These supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic 2012 financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic 2012 financial statements taken as a whole.

Elmira, New York
June 27, 2013

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31,	
	2012	2011
ASSETS		
Investments, at fair value:		
Guaranteed Income Fund	$2,189	$2,183
Tompkins Financial Corporation common stock	22,411,195	21,223,266
TOTAL INVESTMENTS	22,413,384	21,225,449
Employer contribution receivable	712,903	1,038,036
NET ASSETS AVAILABLE FOR BENEFITS	$23,126,287	$22,263,485

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

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Year ended December 31, 2012	2011
ADDITIONS		
Additions to net assets attributed to:		
Investment income:		
Interest and dividends	$821,171	$757,806
Net appreciation (depreciation) in fair value of investments	607,153	(434,381)
	1,428,324	323,425
Contributions – employer	712,066	1,038,497
TOTAL NET ADDITIONS	2,140,390	1,361,922
DEDUCTIONS		
Deductions from net assets attributed to:		
Benefits paid to participants	1,049,875	593,606
Transfer to Tompkins Financial Corporation Investment and Stock Ownership Plan	227,713	83,134
TOTAL DEDUCTIONS	1,277,588	676,740
NET INCREASE	862,802	685,182
Net assets available for benefits at beginning of year	22,263,485	21,578,303
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$23,126,287	$22,263,485

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

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE A: DESCRIPTION OF PLAN

The following description of the Tompkins Financial Corporation Employee Stock Ownership Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General
The Plan is an employee stock ownership plan covering eligible employees who have met certain age and service requirements. The Plan is administered by the Executive, Compensation/Personnel Committee appointed by Tompkins Financial Corporation's Board of Directors, and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). All investments of the Plan are non-participant directed.

Eligibility
An employee shall become eligible for participation in the Plan on the first day of the month coinciding with completing one year of credited service and attaining the age of twenty-one. Leased employees, employees covered under a collective bargaining agreement and "On-Call" employees are not eligible to participate.

Vesting
Participants will become vested in all contributions and earnings over a three-year period.

Contributions
Tompkins Financial Corporation shall contribute to the Plan a discretionary amount, which shall not exceed 5% of participant compensation. The Executive, Compensation/Personnel Committee approved a 2% and 3% discretionary contribution to the Plan for the years ended December 31, 2012 and 2011, respectively. These contributions are used by the Employee Stock Ownership Plan to acquire company common stock. These common stock shares are allocated annually to participant accounts. The Plan sponsor has the right to discontinue such discretionary contributions at any time.

Diversification and transfers
Diversification is offered to participants close to retirement so that they may have the opportunity to move part of the value of their investment in the Plan sponsor stock into investments which are more diversified. Participants who are at least age 55 with at least 10 years of participation in the Plan may elect to diversify a portion of their account. Diversification is offered to each eligible participant over multiple years. In each of the first five years, a participant may diversify up to 25 percent of the number of post-1986 shares allocated to his or her account, less any shares previously diversified. After the fifth year, the percentage changes to 50 percent. The funds elected to be diversified are transferred to the Tompkins Financial Corporation Investment and Stock Ownership Plan ("ISOP") and invested in funds as chosen by the participant. During the years ended December 31, 2012 and 2011, the Plan transferred $227,713 and $83,134 into the ISOP, respectively.

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE A: DESCRIPTION OF PLAN, Cont'd

Participants' accounts
Each participant's account is credited with an allocation of the Tompkins Financial Corporation's discretionary and non-elective contributions and an allocation of plan earnings. Allocations of company contributions are based upon the participant's compensation and the allocations of plan earnings are based upon participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. Forfeitures of non-vested account balances are allocated to participants' accounts as company contributions.

Payment of benefits
Upon termination of service, the participant's account is either maintained in the Plan, transferred to an individual retirement account in the participant's name, directly rolled over into a qualified retirement plan or paid to the participant in a lump sum.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting
The financial statements of the Plan are prepared under the accrual method of accounting.

Investment valuation and income recognition
The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note C for discussion of fair value measurements.

Administrative expenses
The Plan sponsor has elected to pay certain administrative expenses of the Plan.

Use of estimates in the preparation of financial statements
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions.

Payment of benefits
Benefits are recorded when paid.

Subsequent events
The Plan has evaluated subsequent events and determined no significant subsequent events have occurred requiring adjustments to the financial statements or disclosures.

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE C: FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

— Quoted prices for similar assets or liabilities in active markets;
— Quoted prices for identical or similar assets or liabilities in inactive markets;
— Inputs other than quoted prices that are observable for the asset and liability;
— Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Tompkins Financial Corporation Common Stock: Valued at the closing price reported on the active market on which the stock is traded.

Guaranteed Income Fund: Fair value equals cost.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2012 and 2011:

	Level 1	Level 2	Level 3	Total
December 31, 2012				
Tompkins Financial Corporation common stock	$22,411,195	$—	$—	$22,411,195
Guaranteed income fund	—	—	2,189	2,189
	$22,411,195	$—	$2,189	$22,413,384
December 31, 2011				
Tompkins Financial Corporation common stock	$21,223,266	$—	$—	$21,223,266
Guaranteed income fund	—	-	2,183	2,183
	$21,223,266	$—	$2,183	$21,225,449

The following is a reconciliation of the beginning and ending balances for assets measured at fair value, on a recurring basis using significant unobservable inputs (Level 3).

	December 31, 2012	2011
Guaranteed income fund:		
Balance at beginning of year	$2,183	$2,120
Miscellaneous transactions	(52)	—
Interest income	58	63
Balance at end of year	$2,189	$2,183

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE D: INVESTMENTS

The following presents the fair value of investments and the net appreciation (depreciation) in fair value. Investments that represent 5% or more of the Plan's net assets available for benefits are separately identified.

	December 31, 2012		December 31, 2011	
	Net appreciation in fair value during the year	Fair value at end of year	Net depreciation in fair value during the year	Fair value at end of year
Guaranteed income fund	$—	$2,189	$—	$2,183
Tompkins Financial Corporation common stock	607,153	22,411,195	(434,381)	21,223,266
	$607,153	$22,413,384	$(434,381)	$21,225,449

NOTE E: TAX STATUS

The Internal Revenue Service has determined and informed the Company by a letter dated January 13, 2005, that the Plan and related trust are designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's legal counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of IRC.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by tax jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes it is no longer subject to income tax examinations for years prior to December 31, 2009.

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE F: PLAN TERMINATION

Although it has not expressed any intent to do so, the Plan sponsor has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants have a fully vested interest in their accounts and their accounts will be paid to them as provided by the plan document.

NOTE G: TRANSACTIONS WITH PARTIES-IN-INTEREST

The Plan invests in shares of the Guaranteed Income Fund managed by an affiliate of Prudential Retirement. Prudential Retirement acts as trustee for only those investments as defined by the Plan. Transactions in this investment qualify as party-in-interest transactions which are exempt from the prohibited transactions rules.

Tompkins Financial Corporation is the Plan sponsor. The Plan invests primarily in Tompkins Financial Corporation common stock.

NOTE H: RISKS AND UNCERTAINTIES

The Plan invests primarily in Tompkins Financial Corporation common stock. These investment securities are exposed to market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the accompanying statements of net assets available for benefits.

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN

SUPPLEMENTAL SCHEDULES

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN
EIN: 15-0470650
PLAN #: 003

FORM 5500 – SCHEDULE H – PART IV

ITEM 4i – SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES
AT END OF YEAR – DECEMBER 31, 2012

(a) Party in interest	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment, including maturity date, rate of interest, collateral, par or maturity value		(d) Cost		(e) Current value
*	Prudential Retirement Insurance and Annuity Company	78.9286 Units Guaranteed Income Fund	$	2,189	$	2,189
*	Tompkins Financial Corporation	565,368 Shares of Common Stock		16,718,141		22,411,195
		TOTAL INVESTMENTS	$	16,720,330	$	22,413,384

TOMPKINS FINANCIAL CORPORATION
EMPLOYEE STOCK OWNERSHIP PLAN
EIN: 15-0470650
PLAN #: 003

FORM 5500 – SCHEDULE H – PART IV

ITEM 4j – SCHEDULE OF REPORTABLE TRANSACTIONS
YEAR ENDED DECEMBER 31, 2012

Reportable transactions are transactions or a series of transactions in excess of 5% of the value of the Plan assets as of January 1, 2012 as defined in Section 2520.103-6 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA:

(a) Identity of party involved	(b) Description of asset (including interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)
Series of transactions						
Tompkins Financial Corporation	Series of 13 Purchases	$ 1,756,118	$ —	$ 1,756,118	$ 1,756,118	$ —
common stock	Series of 42 Sales	$ —	$ 1,175,342	$ 784,193	$ 1,175,342	$ 391,149

Note: Columns (e) and (f) are not applicable.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

TOMPKINS FINANCIAL CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

Administrator: TOMPKINS TRUST COMPANY

Date: June 27, 2013

By: /s/ Francis M. Fetsko
Francis M. Fetsko
Executive Vice President
Chief Financial Officer

Exhibit Number	Description	Page
23.1	Consent of Mengel, Metzger, Barr & Co. LLP	

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Recognition of deferred compensation—subsidiary			—	—	—	—	14,057	—	14,057
Issuance of Series B, convertible preferred stock for cash—subsidiary			—	—	—	—	1,902,500	—	1,902,500
Cash paid as direct offering costs in connection with sale of Series B, convertible preferred stock—subsidiary			—	—	—	—	(152,200)	—	(152,200)
10% in-kind Series B, convertible preferred stock dividend—subsidiary			—	—	—	—	190,250	(190,250)	—
Net loss for the year ended December 31, 2005		—	—	—	—	—		(1,355,842)	(1,355,842)
Balance, December 31, 2005	16,264,661	16,265	4,716,411	4,716	3,189,449			(3,914,268)	(703,838)

Conversion of related party loan to common stock ($0.67268/share)	—	—	4,995,633	4,996	3,269,732	—	3,274,728
Issuance of common stock for cash—private placement ($0.67340/share)	—	—	20,702,794	20,703	13,905,660	—	13,926,363
Cash paid as direct offering costs in private placements	—	—	—	—	(1,160,418)	—	(1,160,418)
Issuance of common stock for license fees ($.30679/share)	—	—	1,266,941	1,267	387,424	—	388,691
Conversion of accrued expenses to contributed capital—former related party	—	—	—	—	3,017	—	3,017
Deemed issuance to shareholders of legal acquiror and recapitalization	—	—	737,472	737	(665,737)	—	(665,000)
Conversion of Series A, convertible preferred stock to common stock	(16,264,661)	(16,265)	16,264,661	16,265	—	—	—
Recognition of stock based consulting in connection wtih stock option grants	—	—	—	—	411,310	—	411,310
Recognition of stock based compensation in connection with stock option grants	—	—	—	—	410,639	—	410,639
10% in-kind Series B, convertible preferred stock dividend—subsidiary	—	—	—	—	190,250	(190,250)	—
30% in-kind Series B, convertible preferred stock dividend—subsidiary	—	—	—	—	570,750	(570,750)	—
Net loss for the year ended December 31, 2006	—	—	—	—	—	(4,099,095)	(4,099,095)

Balance, December 31, 2006	—	$ —	48,683,912	$ 48,684	$ 20,512,076	$ (8,774,363)	$ 11,786,397	

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

	For the years ended December 31, 2006	For the years ended December 31, 2005	For the Period from January 8, 2001 (Inception) to December 31, 2006
Cash Flows From Operating Activities:			
Net loss	$ (4,099,095)	$ (1,355,842)	$ (7,823,113)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation expense	410,639	24,550	453,523
Stock-based consulting	411,310	59,960	487,716
Stock issued for license fees	388,691	—	388,691
Depreciation	30,675	2,260	32,935
Changes in operating assets and liabilities:			
Prepaid expenses and other	(25,702)	—	(25,702)
Accounts payable	325,746	186,963	540,120
Accrued liabilities	191,917	—	191,917
Net Cash Used In Operating Activities	(2,365,819)	(1,082,109)	(5,753,913)
Cash Flows From Investing Activities:			
Purchases of property and equipment	(45,833)	—	(45,833)
Cash paid to acquire shell in reverse merger	(665,000)	—	(665,000)
Net Cash Used In Investing Activities	(710,833)	—	(710,833)
Cash Flows From Financing Activities:			
Proceeds from sale of common stock and warrants in private placement	13,926,362	—	13,926,362
Cash paid as direct offering costs in private placements	(1,160,418)	—	(1,160,418)
Proceeds from issuance of Series B, convertible preferred stock - subsidiary	—	1,902,500	1,902,500
Direct offering costs in connection with issuance of series B, convertible preferred stock - subsidiary	—	(152,200)	(152,200)
Proceeds from issuance of preferred and common stock	—	—	1,150,590
Proceeds from loans payable - related party	1,365,344	684,553	3,210,338
Repayments of loans payable - related party	(20,000)	(200,000)	(220,000)
Net Cash Provided By Financing Activities	14,111,288	2,234,853	18,657,172
Net increase in cash	11,034,636	1,152,744	12,192,426
Cash at beginning of year/period	1,157,790	5,046	—
Cash at end of year/period	$ 12,192,426	$ 1,157,790	$ 12,192,426

Supplemental disclosures of cash flow information:

Cash paid during the period for interest	$	—	$	—	$	—
Cash paid for taxes	$	—	$	—	$	—
Supplemental disclosure of non-cash investing and financing activities:						
Pipex Therapeutics acquired equipment in exchange for a loan with a related party	$	—	$	284,390	$	284,390
EPI declared a 10% and 30% in-kind dividend on its Series B, convertible preferred stock	$	761,000	$	190,250	$	951,250
The Company issued shares and warrants in connection with the conversion of certain related party debt	$	3,274,728	$	—	$	3,274,728
Conversion of accrued liabilities to contributed capital - former related party	$	3,017	$	—	$	3,017

See accompanying notes to consolidated financial statements

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

Notes to Consolidated Financial Statements

Note 1 Organization and Nature of Operations

(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.

(B) Corporate Structure and Basis of Presentation

The Company has four majority owned subsidiaries, Pipex Thereapeutics, Inc. (Pipex Therapeutics), Solovax, Inc. (Solovax), Effective Pharmaceuticals, Inc. (EPI) and CD4 Biosciences, Inc. (CD4).

The Company consists of four separate entities previously under common control. As of December 31, 2006, all of the entities were majority owned subsidiaries of Pipex. The combinations of these entities were accounted for in a manner similar to a pooling of interests.

For financial reporting purposes, the outstanding preferred stock and common stock of the Company is that of Pipex. All statements of operations, stockholders' deficit and cash flows for each of the entities are presented as consolidated since inception (January 8, 2001) due to the existence of common control since that date. All of our subsidiaries were incorporated January 8, 2001 under the laws of the State of Delaware, except for EPI which was incorporated on December 12, 2000.

(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, 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, EPI, Solovax and 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 34,000,000 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 2,426,300 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 $665,000. Upon the closing of the reverse merger, shareholders of Sheffield retained an aggregate 737,472 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.

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

Notes to Consolidated Financial Statements

(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 at December 31, 2006, 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.

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.

(B) Development Stage

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

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

Notes to Consolidated Financial Statements

had an accumulated deficit of $8,774,363 at December 31, 2006. The Company’s consolidated financial statements are presented as statements of a development stage enterprise. Additionally, the Company continually seeks sources of debt or equity based funding to further its intended research and development activities.

(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 2006 and 2005 include depreciable lives of property, valuation of stock options and warrants granted for services or compensation pursuant to 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 December 31, 2006, the balance exceeded the federally insured limit by $11,792,261.

(E) Equipment

Equipment is stated at cost, less accumulated depreciation. Costs greater than $1,000 are capitalized and depreciated on a straight-line basis over the estimated useful lives, which is generally ten years. Equipment consists primarily of equipment used in connection with research and development. Expenditures for maintenance and repairs are charged to expense as incurred.

(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 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 years ended December 31, 2006 and 2005 and for the period from January 8, 2001 (inception) to December 31, 2006.

(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 Note 9(A)), 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.

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(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. Since the Company reported a net loss at December 31, 2006 and 2005 and for the period from January 8, 2001 (inception) to December 31, 2006, respectively, all common stock equivalents would be anti-dilutive; as such there is no separate computation for diluted earnings per share.

The Company's net loss per share for the years ended December 31, 2006 and 2005 and for the period from January 8, 2001 (inception) to December 31, 2006 was computed assuming the recapitalization associated with the reverse merger, as such all share and per share amounts have been retroactively restated to reflect the weighted average shares outstanding for the legal acquirer. Additionally, the numerator for computing net loss per share was adjusted for preferred stock dividends recorded during the years ended December 31, 2006 and 2005 in connection with certain provisions relating to the sale of EPI's Series B, convertible preferred stock. (See Note 5(C)(1))

(I) Research and Development Costs

The Company expenses all research and development costs as incurred for which there is no alternative future use. These costs also include the expensing of employee compensation and employee stock based compensation.

(J) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. (See Note 7)

(K) Fair Value of Financial Instruments

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

(L) Stock Based Compensation

In December 2004, the FASB issued SFAS No. 123(R), *"Share-Based Payment,"* which replaces SFAS No. 123 and supersedes APB Opinion No. 25. Under SFAS No. 123(R), companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share-based compensation arrangements include stock options, stock warrants, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, or "SAB 107". SAB 107 expresses views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. On April 14, 2005, the SEC adopted a rule amending the compliance dates for SFAS 123R. Companies may elect to apply this statement either prospectively, or

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on a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods under SFAS No. 123. The Company has elected to retroactively adopt the provisions of SFAS No. 123R.

All share-based payments to employees since inception have been recorded and expensed in the statements of operations as applicable.

(M) Recent Accounting Pronouncements

In February 2006 the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS 155), which amends SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities" (SFAS 133) and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS 140). SFAS 155 amends SFAS 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS No. 155 also amends SFAS No. 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that it is a derivative financial instrument. The Company will adopt SFAS No. 155 on January 1, 2007 and does not expect it to have a material effect on its financial position, results of operations, or cash flows.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, ("FIN 48") "*Accounting for uncertainty in income taxes — an interpretation of SFAS No. 109."* This Interpretation provides guidance for recognizing and measuring uncertain tax positions, as defined in FASB No. 109, "*Accounting for income taxes.*" FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of an uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that this Interpretation will have a material impact on their financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "*Fair Value Measurements."* SFAS 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on their financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158 ("SFAS 158"), "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)."* SFAS 158 requires employers to recognize the under-funded or over-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The new reporting requirements and related new footnote disclosure rules of SFAS 158 are effective for fiscal years ending after December 15, 2006. The new measurement date requirement applies for fiscal years ending after December 15, 2008. The Company does not expect the adoption of SFAS 158 to have a material impact on their financial position, results of operations or cash flows.

In September 2006, the U.S. Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin ("SAB No. 108"), which expresses the views of the SEC staff regarding the process of quantifying financial statement misstatements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance of this SAB is effective for annual financial statements covering the first fiscal year ending after November 15, 2006, which is December 31, 2006 for the Company. SAB No. 108 did not have an impact on the Company's financial position, results of operations or cash flows.

Note 3 Equipment

At December 31, 2006, equipment consisted primarily of laboratory equipment that is being depreciated on a straight-line basis over its estimated useful life of ten years. Depreciation expense in the years ended December 31, 2006 and 2005, and in the period from inception (January 8, 2001) to December 31, 2006, was $30,675, $2,260 and $32,935, respectively. During 2005, the Company acquired equipment in exchange for a related party note payable. (See Note 4)

Note 4 Loans Payable — Related Party

An affiliate of the Company's founder, President and CEO has advanced working capital to or on behalf of the Company. Loan activity for the Company was as follows since inception:

Total loans / (repayments) per year		Amount
Year ended December 31, 2001 — loans	$	—
Year ended December 31, 2002 — loans		130,520
Year ended December 31, 2003 — loans		244,640
Year ended December 31, 2004 — loans		785,281
Year ended December 31, 2005 — loans		968,943
Year ended December 31, 2005 — repayments		(200,000)
Year ended December 31, 2006 — loans		1,365,344
Year ended December 31, 2006 — repayments		(20,000)
Year ended December 31, 2006 — conversion to equity		(3,274,728)
Balance, December 31, 2006	$	—

During 2005, the Company acquired $284,390 in equipment in exchange for an increase in loans payable— related party. This advance is the non-cash component of the $968,943 in 2005. (See Note 3)

On October 31, 2006, the non-interest bearing loans payable to the Company's founder, Chairman and Chief Executive Officer, which amounted to $3,274,728, were converted into 4,995,633 shares of common stock and 2,497,817 warrants to purchase common stock. (See Note 5(D))

Note 5 Stockholders' Equity and Non-Controlling Interest

All issuances for Pipex Therapeutics, Inc. have been retroactively restated to reflect the recapitalization due to reverse merger.

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(A) Preferred Stock Issuances

1. For the Year Ended December 31, 2001

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).

On January 15, 2001, Pipex Therapeutics issued 16,264,661 shares of Series A Convertible Preferred Stock (pursuant to the October 31, 2006 reverse merger and recapitalization) to a founder serving as the President, CEO and Chairman of the Board of Pipex in exchange for $300,000 ($0.01844 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 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 ($0.30 per share).

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).

2. For the Year Ended December 31, 2005

On March 10, 2005, EPI's board of directors and stockholders voted to authorize the designation of a Series B Convertible Preferred Stock. (See Note 5(C))

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 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. (See Note 5(H)(1))

See Note 9(A) regarding acquisition of remaining non-controlling interest.

4. CD4 Biosciences, Inc.

(B) Series A Convertible Preferred Stock

The Company and its majority owned subsidiaries has each authorized and issued Series A Convertible Preferred Stock. (See Note 1(C)) for conversion of Pipex Series A convertible preferred stock.

The terms of the Series A Convertible Preferred Stock for the Company and its majority owned subsidiaries is summarized below. The terms are the same for each of the entities.

1. Dividends

Each share of Series A Convertible Preferred Stock is entitled to receive dividends in an amount equal to dividends declared and paid with respect to that number of shares of common stock into which one share of Series A Convertible Preferred Stock is then convertible. For the period from January 8, 2001 (inception) to December 31, 2006, neither the Company, nor any of its majority owned subsidiaries has declared any Series A Convertible Preferred Stock dividends.

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2. Liquidation Preference

Upon liquidation, holders of the Series A Convertible Preferred Stock will be entitled to the greater of (1) a per share amount equal to the original purchase price plus any dividends accrued but not paid and (2) the amount that the holder would receive in respect of a share of Series A, preferred if immediately prior to dissolution and liquidation, all shares of Series A Convertible Preferred Stock were converted into shares of common stock.

3. Conversion

Each share of Series A Convertible Preferred Stock is immediately convertible on a one for one basis at the option of the holder. The conversion ratio is determined by dividing the original issue price of the Series A Convertible Preferred Stock by the conversion price for the Series A, convertible preferred stock in effect on the date the certificate is surrendered for conversion. The conversion price will initially be the original issue price, which is subject to future adjustment. Therefore, at December 31, 2006, the conversion ratio is 1.00.

4. Voting Rights

Each holder of Series A, convertible preferred stock is entitled to one vote for each share of common stock into which each share of Series A Convertible Preferred Stock could then be converted.

5. Beneficial Conversion Feature and Derivative Liability

The Company and its majority owned subsidiaries has reviewed each of the provisions of its Series A Convertible Preferred Stock and noted no required accounting for a beneficial conversion feature pursuant to the guidance in EITF No.'s 98-5 or 00-27. Upon issuance, the original issue price, its fair value, and conversion price were equivalent.

Additionally, there is no required accounting or financial statement impact for derivative instruments. None of the Company or its majority owned subsidiaries Series A Convertible Preferred Stock has embedded features requiring such treatment.

(C) Series B Convertible Preferred Stock

Only Pipex and EPI have authorized Series B Convertible Preferred Stock.

At December 31, 2006, Pipex has not issued any of its Series B Convertible Preferred Stock. Pipex has not yet designated their Series B Convertible Preferred Stock as it pertains to dividends, liquidation preference, conversion, voting rights, and other rights and preferences.

At December 31, 2006, the only Series B Convertible Preferred Stock of the consolidated group of companies, that has been issued was in EPI. The consolidated balance sheet reflects these transactions as a component of equity and the par value is eliminated in consolidation. (See Note 1(B)). EPI's Series B Convertible Preferred Stock was cancelled and retired in connection with the January 5, 2007 merger agreement to acquire the remaining portion of the non-controlling voting interest in EPI by Pipex (See Note 9(A))

The terms of the Series B Convertible Preferred Stock for EPI are summarized below.

1. Dividends

If the common stock of the company trades on a national securities exchange (a "Trading Event") or the company completes an initial public offering of EPI common stock (an "IPO"), or the conversion

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of all of the outstanding shares of Series B Convertible Preferred Stock, each share of Series B Convertible Preferred Stock will be entitled to receive a dividend in additional shares of Series B Convertible Preferred Stock at the rate of 10% of the Series B purchase price per year, with those dividends being payable only in a number of shares equal to the dollar amount of those dividends divided by the Series B original purchase price (as adjusted for any stock dividends, consolidations, splits, recapitalizations, and the like). Dividends accrue on each share of Series B Convertible Preferred Stock, whether or not earned or declared and regardless of when any share of Series B Convertible Preferred Stock was issued. During the years ended December 31, 2006 and 2005, the Company issued 190,250 and 190,250 shares, respectively for the 10% PIK dividend having a fair value of $190,250 and $190,250, respectively.

Each share of Series B Convertible Preferred Stock is also entitled to receive an additional dividend at the rate of 30% of the Series B original purchase price if within 18 months from the final closing (this occurred effective June 30, 2005) of this offering there has occurred neither an IPO nor a Trading Event. These dividends are payable only in a number of shares equal to the dollar amount of those dividends divided by the Series B original purchase price. At December 31, 2006, since none of the conditions were met within the allotted 18-month time frame, the Company recorded a 30% paid in kind dividend for 570,750 shares having a fair value of $570,750.

At December 31, 2006 and 2005, EPI recorded preferred stock dividends aggregating 761,000 and 190,250 shares, respectively, having a fair value of $761,000 and $190,250, respectively. For the period from January 8, 2001 (inception) to December 31, 2006, the Company recorded preferred stock dividends aggregating 951,250 shares having a fair value of $951,250.

2. Liquidation Preference

Upon liquidation, holders of the shares of Series B Convertible Preferred Stock will be entitled to receive in preference to holders of shares of any junior stock an amount per share of Series B Convertible Preferred Stock equal to the greater of (1) an amount equal to the Series B original purchase price (as adjusted for any stock dividends, consolidations, splits, recapitalizations and the like) plus any dividends accrued on a share of Series B Convertible Preferred Stock but not paid and (2) the current market price of our common stock multiplied by the number of shares of common stock into which a share of Series B Convertible Preferred Stock could be converted immediately prior to dissolution and liquidation. After payment of the liquidation amount to holders of shares of Series B Convertible Preferred Stock the remaining assets will be distributed to holders of shares of common stock.

3. Conversion

Each share of Series B Convertible Preferred Stock is convertible at the option of the holder at any time into one share of common stock, subject to adjustment.

Upon consummation of an IPO or a Trading Event, all shares of Series B Convertible Preferred Stock will be deemed automatically converted into that number of fully paid and non-assessable shares of common stock into which those shares would have then been convertible in the event of optional conversion. In the event of a merger in which our shareholders constitute a majority of the voting power of the surviving corporation, or our common stock trades at 300% of the Series B original purchase price, then all of the shares of Series B Convertible Preferred Stock then outstanding will convert into shares of common stock.

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4. Voting Rights

Each holder of shares of Series B Convertible Preferred Stock is entitled to one vote for each share of common stock into which each share of Series B Convertible Preferred Stock could then be converted and is entitled to vote together with our shares of Series A Convertible Preferred Stock and common stock.

5. Beneficial Conversion Feature and Derivative Liability

EPI's Series B Convertible Preferred Stock has no required accounting for a beneficial conversion feature pursuant to the guidance in EITF No.'s 98-5 or 00-27. Upon issuance, the original issue price, its fair value, and conversion price were equivalent.

Additionally, there is no required accounting or financial statement impact for derivative instruments. EPI's Series B Convertible Preferred Stock has no embedded features requiring such treatment.

6. Anti-dilution Protection

If EPI issues any shares of common stock (with certain exceptions) without consideration or for a consideration per share less than the "Conversion Price" (as defined in the certificate of amendment containing the terms of the Series B Convertible Preferred Stock) in effect immediately prior to the issuance of those shares, holders of shares of Series B Convertible Preferred Stock will be entitled to weighted-average anti-dilution protection. EPI has not issued or granted any common stock or common stock equivalents since the issuance of the Series B Convertible Preferred Stock during 2005.

(D) Common Stock Issuances of Issuer

During October and November of 2006, the Company completed private placements of its stock, which resulted in the issuance of 20,702,794 shares of common stock and 10,351,979 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 2,874,831 warrants with an aggregate fair value of $4,555,457. (See Note 5 (G)).

On October 31, 2006, the loans payable to the Company's founder, President and CEO were converted into 4,995,633 shares of common stock and 2,497,817 warrants. (See Note 4). The warrants have an exercise price of $0.74 and each warrant has a life of 5 years.

During October 2006, the Company converted all of its 16,264,661 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 1,266,941 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 recent cash offering price and was charged to research and development expense.

(E) Common Stock Issuances of Subsidiaries

During the period from January 8, 2001 (inception) to December 31, 2004, the Company's majority owned subsidiaries; CD4, Solovax and EPI issued an aggregate 590,000 shares of common stock for $590. Additionally, EPI issued 825,000 shares of common stock at par value to acquire a controlling

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interest in CD4. Finally, an aggregate 119,000 shares of common stock was issued for compensation and consulting services rendered having a fair value of $119.

(F) Stock Option Plan

During 2001 (the “Effective Date”), Pipex Therapeutics’ Board and stockholders adopted the 2001 Stock Incentive Plan (the “Plan”). This plan was assumed by Pipex in the merger, in the forth quarter of 2006. As of the date of the merger there were a total of 4,468,059 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 (not affected for stock split). All awards pursuant to the Plan shall terminate upon the termination of the grantee’s employment for any reason.

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.

Awards include options, restricted shares, stock appreciation rights, performance shares and cash-based awards (the “Awards”). The Plan contains certain anti-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 (the “Committee”) 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.

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. All option and warrant grants are expensed in the appropriate period based upon vesting terms, in each case with an offsetting credit to additional paid in capital. The Black-Scholes assumptions used in the years ended December 31, 2006 and 2005 are as follows:

	Year Ended December 31,	
	2006	**2005**
Exercise price	$0.03 - $4.00	$0.03
Expected dividends	0%	0%
Expected volatility	93.09% - 200%	200%
Risk fee interest rate	4.43% - 4.99%	3.03% - 4.52%
Expected life of option	3-10 years	10 years

All option and 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 years ended December 31, 2006 and 2005 and the period from inception to December 31, 2006 with respect to awards under the Plan is as follows:

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	Year Ended December 31, 2006	Year Ended December 31, 2005	Inception to December 31, 2006
Research and development:			
employees	$ 226,909	$ 12,275	$ 239,184
non-employees	—	59,960	59,960
General and administrative:			
employees	183,730	12,275	196,005
non-employees	$ 411,310	—	411,310
	$ 226,909	$ 84,510	$ 906,459

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.

A summary of stock option activity for the years ended December 31, 2006 and 2005 is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2004	—	$ —
Granted	764,384	$ 0.03
Exercised	—	$ —
Forfeited	—	$ —
Balance at December 31, 2005	764,384	$ 0.03
Granted	4,092,182	$ 0.73
Exercised	—	$ —
Forfeited	(15,000)	$ 0.30
Balance at December 31, 2006	4,841,566	$ 0.62

Of the total options granted, 1,925,516 are fully vested, exercisable and non-forfeitable.

Of the 4,092,182 options granted in 2006, 3,606,094 were granted to related parties of which 1,060,188 are fully vested.

The options outstanding and exercisable at December 31, 2006 are as follows:

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	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.03	764,384	7.29 Years	$0.03	764,384	$0.03
$0.06	211,425	9.35 Years	$0.06	40,659	$0.06
$0.61	1,992,756	9.42 Years	$0.61	332,126	$0.61
$0.67	813,175	9.84 Years	$0.67	271,058	$0.67
$0.74	298,507	9.92 Years	$0.74	174,129	$0.74
$1.00	686,319	4.07 Years	$1.00	343,160	$1.00
$4.00	75,000	9.97 Years	$4.00	—	$4.00
	4,841,566	7.91 Years	$0.62	1,925,516	$0.45

(G) Stock Warrants

In October and November 2006, the Company issued warrants to purchase 10,351,979 shares of common stock as part of the private placement offering. The warrants have an exercise price of $0.74 and each warrant has a life of 5 years.

In addition, as part of the private placements, the Company issued warrants to purchase 2,874,831 shares of common stock to the placement agent, which is a company that is controlled by the Company's Chairman and CEO. The warrants have an exercise price of $0.74. 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 ten years. Since these warrants were granted as compensation in 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 4,995,633 shares of common stock and 2,497,817 warrants to purchase common stock. The warrants have an exercise price of $0.74 and a life of 5 years. (See Note 4)

12,849,796 of the warrants are callable by Pipex in the event that Pipex's common stock trades at $1.85 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 the years ended December 31, 2006 and 2005 is as follows:

	Number of Shares
Balance as December 31, 2005	—
Granted	15,724,627
Exercised	—
Forfeited	—
Balance as December 31, 2006	15,724,627

(H) Options and Warrants of Subsidiaries

(1) EPI

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The following tables summarize all stock option and warrant grants to employees and non-employees of EPI as of December 31, 2006 and 2005, and the related changes during these periods is presented below.

	Number of Options/Warrants	Weighted Average Exercise Price
Stock Options/Warrants		
Balance at December 31, 2004	292,500	$ 0.04
Granted	171,225	$ 1.10
Exercised	—	$ —
Forfeited	—	$ —
Balance at December 31, 2005	463,725	$ 0.43
Granted	—	$ —
Exercised	—	$ —
Forfeited	—	$ —
Balance at December 31, 2006	463,725	$ 0.43
Options exercisable at December 31, 2006	257,479	$ 0.75
Weighted average fair value of options granted during 2005		$ —

Of the total options granted, 86,254 are fully vested, exercisable and non-forfeitable. Of the 292,500 options granted, 262,500 were granted to a related party of which 56,254 are fully vested. See Note 9(A)

Of the total warrants granted, all 171,225 are fully vested, exercisable and non-forfeitable and 144,590 were issued to related parties.

The following table summarizes information about stock options/warrants for EPI at December 31, 2006:

Options/Warrants Outstanding				Options/Warrants Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.03	262,500	7.71 Years	$0.03	56,254	$0.03
$0.10	30,000	7.76 Years	$0.20	30,000	$0.20
$1.10	171,225	8.42 Years	$1.10	171,225	$1.10
	463,725	8.19 Years	$0.43	257,479	$0.75

(2) CD4

The following tables summarize all stock option grants to employees and non-employees of CD4 as of December 31, 2006 and 2005, and the related changes during these periods is presented below.

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	Number of Options	Weighted Average Exercise Price	
Stock Options			
Balance at December 31, 2004	30,000	$	0.20
Granted	—	$	—
Exercised	—	$	—
Forfeited	—	$	—
Balance at December 31, 2005	30,000	$	0.20
Granted	—	$	—
Exercised	—	$	—
Forfeited	—	$	—
Balance at December 31, 2006	30,000	$	0.20
Options exercisable at December 31, 2006	30,000	$	0.20
Weighted average fair value of options granted during 2006		$	—

Of the total options granted, all 30,000 are fully vested, exercisable and non-forfeitable and are issued to non-related parties.

The following table summarizes information about stock options for CD4 at December 31, 2006:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.20	30,000	1.48 Years	$0.20	30,000	$0.20

(I) 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 reflects a $0 balance.

Note 6 Commitments and Contingencies

(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 milestones. All expenses related to these agreements have been recorded as research and development. In connection with these agreements, the Company had approximately $78,100 outstanding as accounts payable and $181,400 outstanding as accrued liabilities, as of December 31, 2006.

In connection with these agreements, the Company may be obligated to make milestone payments up to an amount of $6,675,000. 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

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payments made during the years ending December 31, 2006, 2005, and for the period from January 8, 2001 (inception) to December 31, 2006. 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. The schedule below does not include the value of these commitments.

(B) Consulting Agreements

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 200,000 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.

In December 2006, Pipex entered into an agreement with a Company to provide consulting services relating to the Company's business management and development. The consultant will be paid $16,666 per month over a six-month term. The consultant also received 298,507 stock options having a fair value of $705,103, and was determined using the Black-Scholes model with the following assumptions: expected dividend yield of 0%, expected volatility of 93.09%, risk free interest rate of 4.43% and an expected life of 10 years.

(C) Employment Agreements

In January 2005, the Company entered into a four-year employment agreement with the Company's Chairman and Chief Executive Officer. Pursuant to this agreement, Pipex will pay an annual base salary of $297,000, an annual bonus equal to 30% of base salary and a ten-year option to acquire 813,175 shares of common stock at the completion of the Company's private placement that occurred on October 31, 2006. As of December 31, 2006, 271,058 options have vested, with the remainder vesting annually over the next two years. The fair value of the options totaled $568,491 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 4.61% and an expected life of 10 years.

The Company entered into an employment agreement with its President on May 24, 2006. Pursuant to this agreement, Pipex will pay an annual base salary of $295,000 and a guaranteed bonus of one-third of base salary. Pipex has also granted a ten-year option to purchase 1,992,756 shares of common stock, of which 332,126 have vested as of December 31, 2006. The remainder of these options will vest quarterly over a three-year period. In event of a termination without just cause, Pipex will provide six months severance, payable over a six-month period.

The following schedule shows committed amounts due for license fees, patent cost reimbursements, sponsored research agreements, employment agreements and consulting fees as of December 31, 2006:

2007:	$	1,546,000
2008:		1,325,163
2009:		758,333
2010:		95,000
2011:		95,000
Each Year Thereafter:		95,000
Total:	**$**	**3,914,496**

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Note 7 Income Taxes

There was no income tax expense for the years ended December 31, 2006 and 2005 due to the Company’s net losses.

The Company’s tax expense differs from the “expected” tax expense for the years ended December 31, 2006 and 2005, (computed by applying the Federal Corporate tax rate of 34% to loss before taxes and 5.5% for State Corporate taxes, the blended rate used was 37.63%), as follows:

		2006		2005
Computed “expected” tax expense (benefit) — Federal	$	(1,317,039)	$	(435,632)
Computed “expected” tax expense (benefit) — State		(225,450)		(74,571)
Change in valuation allowance		1,542,489		510,203
	$	—	$	—

The effects of temporary differences that gave rise to significant portions of deferred tax assets at December 31, 2006 are as follows:

Deferred tax assets:		
Non-deductible stock based compensation	$	(495,031)
Net operating loss carryforward		(2,448,806)
Total gross deferred tax assets		(2,943,837)
Less valuation allowance		2,943,837
Net deferred tax assets	$	—

At December 31, 2006, the Company has a net operating loss carry-forward of $6,507,590 available to offset future taxable income expiring 2026. Utilization of these net operating losses may be limited due to potential ownership changes under Section 382 of the Internal Revenue Code.

The valuation allowance at December 31, 2005 was $1,401,348. The net change in valuation allowance during the year ended December 31, 2006 was an increase of $1,542,489. In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on consideration of these items, Management has determined that enough uncertainty exists relative to the realization of the deferred income tax asset balances to warrant the application of a full valuation allowance as of December 31, 2006.

Note 8 Related Party Transactions

During January 2001, Pipex sold approximately $1.1 million of Series A Preferred Stock to a company controlled by our Chairman and Chief Executive Officer. From 2002 until October 2006, we relied on non-interest bearing bridge loans from a company controlled by our Chairman and Chief Executive Officer. During this 5-year period, the Chairman loaned us $3,274,728 for no additional consideration. In connection with the private placement during October 2006, the Chairman agreed to convert these loans into units in the offering. As a result of the conversion of these loans, we issued 4,995,633 shares of common stock and 2,497,817 warrants to purchase common stock.

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During January 2006, the Company entered into an agreement with an affiliate of one of the Company's directors to write an executive information report for a fee of $35,000. As of December 31, 2006, the Company has paid $17,500 for these services.

In connection with private placements in October and November 2006, we engaged a company that is controlled by our Chairman and Chief Executive Officer as our placement agent. At the closing of the private placement during October and November 2006, Pipex paid the placement agent the sum of $1,033,800 as commissions for its services. The placement agent also received a warrant to purchase 2,874,831 shares of common stock. (See Note 5 (G)) Two of our directors and officers are representatives of the placement agent.

As part of the October 2006 private placement, the Company sold 297,310 shares of its common stock and 148,655 warrants to purchase common stock for total proceeds of $200,000 to entities controlled by our President. As part of the same private placement, Pipex sold 148,655 shares of its common stock and 74,327 warrants to purchase common stock for total proceeds of $100,000 to a related family member of our Chairman and CEO. The terms on which their purchases were made were identical to the terms in which the other investors in these offerings purchased shares.

Note 9 Subsequent Events

(A) 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 2,283,000 shares of common stock having a fair value of $15,181,950 based upon the quoted closing trading price of $6.65 per share. As consideration for the share issuance, EPI, exchanged its outstanding Series B, convertible preferred stock at 120% of total shares held prior to the exchange. Therefore, 1,902,500 shares of Series B, convertible preferred stock were equivalent to 2,283,000 shares for purposes of the exchange. The additional 951,250 shares of Series B dividends were cancelled and retired and were not contemplated in the exchange. The Company also cancelled and retired 3,000,000 shares of Series A, convertible preferred stock as well as 825,000 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 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 $12,328,200, which is included as a component of paid in-kind dividends. At the Company's next reporting period, this difference will be treated as an additional reduction in net loss applicable to common shareholders for purposes of computing loss per share.

The Company granted an aggregate 463,725 options and warrants in a one for one exchange for the outstanding options and warrants with EPI option and warrant 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

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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 has used the following weighted average assumptions for the fair value of the replacement award:

Expected dividends	0%
Expected volatility	196.10%
Expected life	7-8 years
Risk free interest rate	4.65%
Exercise prices ranged from	$0.033 - $1.10

The Company has used the following weighted average assumptions for the fair value of the cancelled award at the cancellation date:

Expected dividends	0%
Expected volatility	200.00%
Expected life	7-8 years
Risk free interest rate	4.65%
Exercise prices ranged from	$0.033 - $1.10

The fair value of the replacement award required an incremental increase in compensation expense of approximately $300.

(B) Stock Option Grants

During January and February 2007, the Company issued 610,000 stock options to new-hire employees, board directors and a consultant having a fair value of $1,287,244. The Company used the following weighted average assumptions:

Expected dividends	0%
Expected volatility	103.29% - 195.16%
Expected life	5-10 years
Risk free interest rate	4.66% - 4.90%
Exercise prices ranged from	$1.29 - $7.50

(C) Employment Agreements

During January and February 2007, the Company entered into six separate employment agreements. Pursuant to the terms of the agreements, these employees are paid annual salaries and were issued a total of 310,000 stock options. These options have been included as a component of the aggregate 610,000 options in Note 9(B). Of the total, 150,000 options were granted to board directors.

(D) Consulting Agreement

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 pay $9,000 per month for a period of twelve months and grant 300,000 stock options with a cashless exercise provision. These options vest upon various milestones as well as over the life of the contract.

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(E) Option Agreement

On January 2, 2007, the Company entered into an option agreement for licensing a new drug candidate. Pursuant to the terms of the agreement, the Company paid $50,000 as a non-refundable fee that gave the Company an exclusive six-month option period in which the Company can enter into a definitive license agreement. If upon executing a definitive license agreement, the Company will be required to pay certain milestones such as cash for royalties, reimbursement for previously incurred patent expenses and stock options.

ITEM 8. CHANGES IN AND DISCUSSIONS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure with our independent auditors for the period ended December 31, 2006.

ITEM 8A. 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 Exchange Act 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. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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 year 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 at the reasonable assurance level.

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

The Company is not an "accelerated filer" for the 2006 fiscal year because it is qualified as a "small business issuer". Hence, under current law, the internal controls certification and attestation requirements of Section 404 of the Sarbanes-Oxley act will not apply to the Company.

ITEM 8B. OTHER INFORMATION

Not applicable.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Below is certain information regarding our directors and executive officers. The following table states who are our directors and officers, as well as biographical information regarding our directors and management.

Name	Age	Position
Steve H. Kanzer, CPA, Esq.	43	Chairman and Chief Executive Officer
Charles L. Bisgaier, Ph.D.	53	President and Director
Jeffrey J. Kraws	42	Director
A. Joseph Rudick, M.D.	50	Chief Medical Officer and Director
Nicholas Stergis, M.S.	32	Vice Chairman and Director
John S. Althaus, M.S., M.B.A.	53	Vice President, Advanced Technology
Jeff Wolf, Esq.	43	Director
Daniel J. Dorman	44	Director
James S. Kuo, M.D., M.B.A.	42	Director

Steve H. Kanzer, CPA, Esq.

Mr. Kanzer, 43, is our co-founder and has served as President since our inception in February 2001 until May 2006. In September 2004, Mr. Kanzer assumed the additional roles of Chairman and Chief Executive Officer and serves on a full-time basis at our corporate headquarters in Ann Arbor, Michigan. Mr. Kanzer has also been a director and officer of our subsidiaries, including Solovax, Inc., Effective Pharmaceuticals, Inc., Putney Drug Corp. and CD4 Biosciences, Inc. Since December 2000, he has served as co-founder and Chairman of Accredited Ventures Inc. and Accredited Equities Inc., a venture capital firm and NASD-member investment bank, respectively, which both specialize in the biotechnology industry. Mr. Kanzer was co-founder, Chairman, President and Chief Executive Officer of Developmental Therapeutics, Inc., a cardiovascular drug development company which was developing an oral thyroid hormone analog, DITPA, for congestive heart failure. Developmental Therapeutics was acquired in October 2003 by Titan Pharmaceuticals, Inc., a publicly traded biopharmaceutical company. Prior to founding Accredited Ventures and Accredited Equities in December 2000, Mr. Kanzer served as Senior Managing Director-Head of Venture Capital at Paramount Capital from 1991 until December 2000. While at Paramount Capital, Mr. Kanzer was involved in the formation and financing of a number of biotechnology companies and held various positions in these companies. From 1995 through 1999, Mr. Kanzer was founding Chairman of the Board of Discovery Laboratories, Inc., a public biotechnology company that has a pending NDA for a drug called SURFAXIN® which Mr. Kanzer licensed in 1995. From 1997 until 2000, Mr. Kanzer was founding President of PolaRx Biopharmaceuticals, Inc., a biopharmaceutical company that licensed and developed TRISENOX® (arsenic trioxide), a leukemia drug that was approved by the FDA in 2000 and which currently holds the FDA record for fastest drug ever developed from IND filing until NDA approval (30 months). PolaRx was merged with Cell Therapeutics Inc. (NASDAQ:CTIC) in January 2000, and Cephalon acquired the rights to TRISENOX® in 2005 for $165 million. Since 1996, Mr. Kanzer has served as a member of the board of directors of DOR BioPharma, Inc., a public biotechnology company that has a pending NDA for orBec® (oral beclomethasone dipropionate), a drug that Mr. Kanzer licensed in 1997. Mr. Kanzer currently serves as non-executive Vice Chairman of the Board of DOR and also served as Interim President from June 2002 until January 2003. In March 1998, Mr. Kanzer led the privatization of the Institute for Drug Research Kft. (IDR) in Budapest, Hungary, a 400-employee, 26 acre pharmaceutical research and development center. Since 1950, IDR operated as the central pharmaceutical R&D center for the country of Hungary, served the active pharmaceutical ingredients (API) needs of Eastern Europe, and performed original drug discovery research, resulting in the registration of over 80 API products. Mr. Kanzer served as Chief Executive Officer of IDR from March 1998 and led the sale of IDR to IVAX Corporation in October 1999. Mr.

Kanzer has also been a co-founder and director of 23 biotechnology companies, including Avigen, Inc., XTLBio, Boston Life Sciences, Inc. and Titan Pharmaceuticals, Inc., all publicly traded companies. Prior to joining Paramount Capital in 1992, Mr. Kanzer was an attorney at the law firm of Skadden, Arps, Slate, Meagher & Flom in New York where he specialized in mergers and acquisitions. Mr. Kanzer received his J.D. from New York University School of Law in 1988 and a B.B.A. in Accounting from Baruch College in 1985, where he was a Baruch Scholar. Mr. Kanzer is active in university-based pharmaceutical technology licensing and has served as Co-Chair of the New York Chapter of the Licensing Executives Society.

Charles L. Bisgaier, Ph.D.

Dr. Bisgaier, 53, is our President and a director. Prior to joining Pipex, Dr. Bisgaier was the Senior Director of Pharmacology at Esperion Therapeutics, a Division of Pfizer Global Research and Development in Ann Arbor, Michigan. In 1998, Dr. Bisgaier co-founded Esperion Therapeutics and served as the Vice President of Pharmacology. At Esperion he played an active role in the discovery, pre-clinical or clinical development of product candidates, including ETC-216 (ApoA-IMilano), ETC-588, ETC-642 and small molecule lipid regulators, that may have utility for the treatment and prevention of cardiovascular diseases. ETC-216 was the first agent every to show rapid regression of artery plaques in humans. In 2004, Esperion Therapeutics was acquired by Pfizer for $1.3 billion.

Prior to Esperion Therapeutics, Dr. Bisgaier was an Associate Research Fellow in the Department of Vascular and Cardiac Disease at Warner-Lambert/Parke-Davis, where he played a role in discovery and development of pharmaceuticals that modulate lipoprotein and cholesterol metabolism. There he participated in the discovery and development of pharmaceutical agents including Gemfibrozil (Lopid®), Atorvastatin calcium (Lipitor®), Avasimibe and Gemcabene. He also lead the discovery efforts for lipid regulating agents including cholesteryl ester transfer protein inhibitors, fatty acid mimetics and cholesterol esterase inhibitors. He has carried out basic research on HDL and its associated proteins including studies on apolipoprotein synthesis, paraoxonase, oxidation, and cholesteryl ester transfer protein function.

He has published over 70 peer reviewed articles and reviews and is a named inventor on numerous patents and patent applications. He currently holds an adjunct position in Pharmacology at the University of Michigan. He is also the Editor-in-Chief of Current Medicinal Chemistry Immunology, Endocrine and Metabolic Agents. Dr. Bisgaier serves as a member of the Michigan Society of Medical Research Board as well as the ProNAI Therapeutics Scientific Board (Kalamazoo, MI).

Dr. Bisgaier received a B.A. (1974) in Biology from the State University College at Oneonta, NY, and a M.S. (1977) and Ph.D. (1981) in Biochemistry from George Washington University. Following his doctorate, he studied lipoprotein metabolism within a Specialized Center of Research (SCOR) for atherosclerosis at Columbia University College of Physicians and Surgeons prior to joining Warner-Lambert/Parke-Davis in 1990.

Jeffrey J. Kraws

Mr. Kraws, 42, is a director of Pipex. Mr. Kraws is Chief Executive Officer and co-founder of Crystal Research Associates. Well known and respected on Wall Street, Mr. Kraws has received some of the most prestigious awards in the industry. Among other awards, he was given a "5-Star Rating" in 2001 by Zacks and was ranked the number one analyst among all pharmaceutical analysts for stock performance in 2001 by Starmine.com. Prior to founding Crystal Research Associates, Mr. Kraws served as co-president of The Investor Relations Group (IRG), a firm representing primarily under-followed, small-capitalization companies. Previously, Mr. Kraws served as a managing director of healthcare research for Ryan Beck & Co. and as director of research/senior pharmaceutical analyst and managing director at Gruntal & Co., LLC (prior to its merger with Ryan Beck & Company). Mr. Kraws served as managing director of the healthcare research group and senior pharmaceutical analyst at First Union Securities (formerly EVEREN Securities); as senior U.S. pharmaceutical analyst for the Swedish-Swiss conglomerate Asea Brown Boveri; and as managing director and president of the Brokerage/Investment Banking operation of ABB Aros Securities, Inc. He also served as senior pharmaceutical analyst at Nationsbanc Montgomery Securities, BT Alex Brown & Sons, and Buckingham Research. Mr. Kraws also has industry experience, having been responsible for competitive analysis within the treasury group at Bristol-Myers-Squibb Company. He holds an MBA from Cornell University and a B.S. degree from State University of New York-Buffalo. During 2006, Mr. Kraws served as our Vice President of Business Development, on a part-time basis. Mr. Kraws only devotes a portion of his time to our business.

A. Joseph Rudick, M.D.

Dr. Rudick, 50, was appointed to the board of directors of Pipex during December 2004. Dr. Rudick currently serves as our Chief Medical Officer and is president and chief medical officer of our subsidiary Effective Pharmaceuticals, Inc.

Dr. Rudick was Chief Executive Officer and President of Atlantic Technology Ventures, Inc. (Atlantic), a public drug-development company, as well as a member of it board of directors from May 1999 until its merger with Manhattan Pharmaceuticals, Inc. in February 2003. He was also a founder of Atlantic and two of its majority-owned subsidiaries, Optex Opthalmalogics, Inc. and Channel Therapeutics, Inc. During his tenure at Atlantic, he structured a corporate partnership with Bausch & Lomb for development of Atlantic's novel cataract removal device, named Catarex™, as well as a partnership with Indevus Pharmaceuticals, Inc. for development of their novel clinical-stage neuropathic pain compound, now known as IP-571. From 1994 to 2001, Dr. Rudick was a vice president of Paramount Capital, Inc., an investment bank specializing in the biotechnology and biopharmaceutical industries, where he participated in numerous private equity financings.

Since 1988, he has been a partner of Associate Ophthalmologists P.C., a private ophthalmology practice located in New York, and from 1993 to 1998 he served as a director of Healthdesk Corporation, a publicly traded medical information company of which he was a co-founder. Dr. Rudick earned a B.A. in Chemistry, with the distinction of Phi Beta Kappa, from Williams College and a Doctorate of Medicine, with the distinction of Alpha Omega Alpha, from the University of Pennsylvania. Dr. Rudick is also a registered representative of Accredited Equities Inc.

John S. Althaus, M.S., M.B.A.

Mr. Althaus, 53, currently serves as the Vice President, Advanced Technology for Pipex. Mr. Althaus' professional career spans 30 + years of scientific research and development in academia and industry and business development in industry. His industry experience includes employment in pharmaceutical, biotechnology and medical device businesses. Mr. Althaus was a faculty research associate at the University of Virginia, Department of Anesthesiology, where he investigated the impact of anesthesia on neurotransmitter mechanisms in peripheral and central nervous systems. While at Pharmacia & Upjohn and the Upjohn Companies, Mr. Althaus became an expert in free-radical-dependent drug therapies in the treatment of neurological diseases and traumatic brain injury. He was a member of the discovery, research and development team that produced the drug Mirapex, a treatment for Parkinson's disease. He was also a member of the discovery, research and development team that produced the drug Freedox, a treatment for brain hemorrhage. Mr. Althaus presented lectures nationally and internationally as the scientific liaison for marketing regarding the promotion of Freedox.

While at Parke-Davis/Pfizer, Mr. Althaus designed, built and managed a bioanalytical research laboratory. The goal of the laboratory was the discovery, development and use of biomarkers to evaluate drug efficacy in clinical trials. Tyrosine nitration and halogenation as biomarkers of disease-dependent free radical injury were found to be diagnostic in atherosclerosis, Parkinson's disease and broncopulmonary dysplasia. Mr. Althaus next joined HandyLab, Inc., a microfluidic biotechnology company that manufactures DNA diagnostic medical devices. Mr. Althaus was the main author and principal investigator of a $2 million NIST ATP grant to develop and commercialize electrochemical detection of DNA diagnostic medical devices.

Prior to his position with Pipex, Mr. Althaus was the founder of Holomics, Inc., a diagnostic device company. In addition, he was also the President of General Fiber, a biotechnology company that develops innovative fibers to address unmet health needs. Mr. Althaus is a co-inventor on eight patents and patent applications and a co-author on 52 peer-reviewed publications. Mr. Althaus received his MS in biochemistry from the University of Maryland and his MBA in general studies from Western Michigan University.

Nicholas Stergis, M.S.

Mr. Stergis, 32, is our co-founder, and Vice Chairman of our board of directors. Mr. Stergis has served as our Chief Operating Officer from our founding during 2001 until March 2007. Prior to co-founding Pipex, Mr. Stergis was a co-founder, Chief Operating Officer and director of Developmental Therapeutics, Inc., a cardiovascular drug development company, until its acquisition in October 2003 by Titan Pharmaceuticals, Inc. (AMEX: TTP), a publicly-traded pharmaceutical company.

Mr. Stergis is also a co-founder and Managing Director of Accredited Ventures Inc., a venture capital firm specializing in the biotechnology and pharmaceutical industries. Mr. Stergis is also Managing Director of Accredited Equities, Inc., a NASD member firm. Prior to co-founding Accredited Ventures, Mr. Stergis was the Interim Director of Corporate Development for Corporate Technology Development, Inc. (CTD), a biopharmaceutical company based in Miami, Florida, until its merger with DOR BioPharma, Inc. (DOR), a publicly traded biotechnology company. During his tenure at CTD, he was responsible for all development tasks associated with the company's lead product, orBec®, which has completed a pivotal Phase III clinical trial and is pending NDA and MAA approval. He was also instrumental in CTD's divestiture of important botulinum toxin intellectual property to Allergan, Inc. (NYSE:AGN), a publicly traded specialty pharmaceutical companies. Prior to joining CTD, Mr. Stergis was a Technology Associate at Paramount Capital, a New York based private equity, venture capital, investment banking and asset management group specializing in the biotechnology and pharmaceutical industries. There, he participated in the startup, acquisition and financing of various biotechnology companies, including CTD. Mr. Stergis received his M.S. in Biology from New York University as well as a B.S. in Biology from the University at Albany, State University of New York. Mr. Stergis is also a director and interim officer of several privately held biopharmaceutical companies such as General Fiber, Inc. which are engaged in the in-licensing of biopharmaceutical candidates. As such, Mr. Stergis devotes a portion of his time to the business of the company.

Jeffrey Wolf, Esq.

Mr. Wolf, 43, currently serves as one of the directors of Pipex. Mr. Wolf has substantial experience in creating, financing, nurturing and growing new ventures based upon breakthrough research and technology. Mr. Wolf is the founding partner of Seed-One Ventures, LLC, a venture capital group focused on seed-stage technology-based investments. Mr. Wolf has been a founder of Elusys Therapeutics, Inc., an antibody-based therapeutic company, Tyrx Pharma, Inc., a biopolymer-based company, Sensatex, Inc., a medical device company and Generation Mobile, Inc. a telecommunications company. Prior to founding Seed-One Ventures, Mr. Wolf served as the Managing Director of The Castle Group, Ltd., a biomedical venture capital firm. At both organizations, Mr. Wolf was responsible for supervising the formation and funding of new technology, biomedical, and service oriented ventures. Mr. Wolf currently sits on the board of Elusys Therapeutics and Netli, Inc. Mr. Wolf received his MBA from Stanford Business School, his JD from New York University School of Law and his BA with honors in Economics from the University of Chicago.

Daniel J. Dorman

Mr. Dorman, 44, was appointed to our board of directors on February 20, 2007. Mr. Dorman is the President of D. J. Dorman & Co., Inc. and its predecessor companies since 1989. D. J. Dorman & Co., Inc. originates, structures, acquires and manages investments in private equity and buyout opportunities on behalf of several entities. Mr. Dorman is also Chairman and CEO of Dorman

Industries, LLC which is a privately owned multi-industry holding company. Additionally, Mr. Dorman is a director of Kux Manufacturing Company, Inc., an architectural engineering and manufacturing company; Chairman of Kroll International, LLC, a wholesaler of law enforcement, homeland defense and public safety equipment; Chairman of Versatile Processing Group, Inc., a holding company for various non-ferrous metal processing and utility service companies serving the industrial and electric utility industries and a director of an international private equity fund, AFA Private Equity Fund I. Mr. Dorman is a graduate of Ferris State University where he holds a Bachelor in Business Administration.

James S. Kuo, M.D., M.B.A.

Dr. Kuo, 42, was appointed to our board of directors on February 20, 2007. Dr. Kuo is the President and Chief Executive Officer of Cysteine Pharma, Inc. From 2003 to 2006, he served as founder, Chairman and Chief Executive Officer of BioMicro Systems, Inc. a private venture-backed, microfluidics company. From 2001 to 2002, he served as President and Chief Executive Officer of Microbiotix, Inc., a private, anti-infectives drug development company. Prior to that time, Dr. Kuo was co-founder, President and Chief Executive Officer of Discovery Laboratories, Inc. where he raised over $22 million in initial private funding and took the company public. He has held senior licensing and business development positions at Pfizer, Inc., and Myriad Genetics, Inc. Dr. Kuo has also been the Managing Director of Venture Analysis at HealthCare Ventures, LLC and Vice President at Paramount Capital Investments, LLC. Dr. Kuo is further a founder of ArgiNOx Pharmaceuticals, Inc., and Monarch Labs. LLC., and is non-executive Chairman of DOR BioPharma, Inc., a publicly traded pharmaceutical company. Dr. Kuo simultaneously received his M.D. from the University of Pennsylvania School of Medicine and his M.B.A. from the Wharton School of Business.

Our directors are paid $2,000 per board meeting that they attend in person, $1,000 per telephonic board meeting and $500 per committee meeting.

We also reimburse our directors for travel and other out-of-pocket expenses incurred in attending board of director or committee meeting.

Directors' Term of Office

Directors will hold office until the next annual meeting of shareholders and the election and qualification of their successors. Officers are elected annually by our board of directors and serve at the discretion of the board of directors.

Audit Committee and Audit Committee Financial Expert

The audit committee is comprised of Jeff Wolf and Dr. James Kuo. The audit committee is responsible for recommending the Company's independent public accounting firm and reviewing management's actions in matters relating to audit functions. The Committee reviews with the Company's independent public accountants the scope and results of its audit engagement and the Company's system of internal controls and procedures. The Committee also reviews the effectiveness of procedures intended to prevent violations of laws. The Committee also reviews, prior to publication, our reports on Form 10-KSB and Form 10-QSB. Our board has determined that all audit committee members are independent under applicable SEC regulations. Our board of directors has determined that Dr. Kuo qualifies as an "audit committee financial expert" as that term is used in Section 407 of the Sarbanes-Oxley Act of 2002.

To date, we have conducted research and development operations and generated no revenue since inception. In light of the foregoing, and upon evaluating our internal controls, our board of directors determined that our internal controls are adequate to insure that financial information is recorded, processed, summarized and reported in a timely and accurate manner in accordance with applicable rules and regulations of the SEC.

Our Compensation Committee consists of Daniel Dorman and Jeff Wolf. Our Nominating Committee consists of Jeff Wolf and Dr. James Kuo. These committees perform several functions, including reviewing all forms of compensation provided to our executive officers, directors, consultants and employees, including stock compensation, and recommending appointments to the board and appointment of executive officers.

ITEM 10. EXECUTIVE COMPENSATION

The following table discloses the total compensation we paid to principal executive officer and two other most highly compensated executive officers in our 2006 and 2005 fiscal years.

SUMMARY COMPENSATION TABLE

		Annual Compensation				
Name and Principal Position	**Year**	**Salary($)**	**Bonus($)**	**Option Awards (1)**	**All Other Annual Compensation**	**Total**
Steve H. Kanzer, CPA, Esq.	2006	0	0	$ 568,491	0	$ 568,491
Chairman & Chief Executive	2005	0	0	0	0	0
Officer						
Charles Bisgaier, Ph.D.	2006	$ 170,192	0	$ 545,804	0	$ 715,996
President	2005	0	0	0	0	0
A. Joseph Rudick, M.D.	2006	$ 175,000	0	0	0	$ 175,000
Chief Medical Officer	2005	$ 116,666	$ 25,000	0	0	$ 141,666

(1) The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions used for the valuation of these option awards are as follows: Expected dividends 0%; Expected volatility 200%; Risk free interest rate ranging from 4.57% - 4.99%; Expected life of options ranging from 3 to 10 years. The assumptions are also disclosed in Note 5 in the Notes to the Consolidated Financial Statements for the Year ended December 31, 2006 included in this report.

The following table contains information relating to grants of stock options made during the fiscal year ended December 31, 2006, to our senior executive officers. No stock options were exercised by our senior executive officers during the last fiscal year.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

Name and Principal Position	**Number of securities underlying options/SARs granted (#)**	**Percent of total options/SARs granted to employees in fiscal year**	**Exercise Price ($/Sh)**	**Expiration date**
Steve H. Kanzer, CPA, Esq. Chairman & Chief Executive Officer	813,175	18.68%	$ .67	11/21/2016
Charles Bisgaier, Ph.D. President	1,992,756(1)	45.77%	$ .61	5/30/2016
A. Joseph Rudick, M.D. Chief Medical Officer	0	0	0	0
John Althaus, M.S. Vice President, Advanced Technology	162,635(1)	3.74%	$ .06	2/6/2010
Jeffrey Kraws Director	686,320(1)	15.76%	$ .03	1/26/2010

(1) These options were issued by Pipex Therapeutics during the last fiscal year and exchanged on October 31, 2006 for options of Pipex Pharmaceuticals in connection with the merger of Pipex Therapeutics and a subsidiary of Pipex Pharmaceuticals.

The following table discloses information regarding outstanding equity awards as of December 31, 2006 for each of our senior executive officers.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name and Principal Position	Number of Securities Underlying Unexercised Options/Exercisable (1)	Number of Securities Underlying Unexercised Options/Unexercisable (1)	Option Exercise Price	Option Expiration date
Steve H. Kanzer Chairman & Chief Executive Officer	271,058	542,117	$ .67	11/21/2016
Charles Bisgaier, Ph.D. President	332,126	1,660,630	$ .61	5/30/2016
A. Joseph Rudick, M.D. Chief Medical Officer, President of EPI	0	0	—	—
John Althaus, M.S. Vice President, Advanced Technology	40,659	121,976	$ .06	2/16/2010

(1) These options were issued during 2006 by Pipex Therapeutics and exchanged on October 31, 2006 for options of Pipex Pharmaceuticals in connection with the merger of Pipex Therapeutics and a subsidiary of Pipex Pharmaceuticals.

Employment Agreements

Pipex entered into an employment agreement with Dr. Charles L. Bisgaier on May 24, 2006. Pursuant to this agreement, Pipex will pay Dr. Bisgaier an annual base salary of $295,000 and a guaranteed bonus of one-third of his base salary. Pipex has also granted Dr. Bisgaier a ten year option to purchase 1,992,756 shares of common stock, of which 332,126 have already vested. The remainder of this option will vest quarterly over a three year period. In event of a termination without just cause, Pipex will provide Dr. Bisgaier with six months severance, payable over a six month period.

During January 2006, Pipex has entered into an employment letter agreement with Jeffrey Kraws, a director to serve as Vice President of Business Development, pursuant to which we will pay him an annual base salary of $75,000 following the closing of a financing and have granted him an option to purchase 686,320 shares of common stock, at an exercise price of $0.03 per share, with 343,160 vested upon execution of his employment agreement and the remainder vesting annually over three years. During March 2007, we entered into an amended agreement with Mr. Kraws whereby he forgo any cash compensation and continue as a director in exchange for 114,386 options vesting. As of the date of this report, we have not paid Mr. Kraws under this agreement.

Pursuant to an employment letter agreement, our majority-owned subsidiary, EPI agreed to pay Dr. Rudick $175,000 per annum, pay life and disability insurance on behalf of Dr. Rudick and he received an option to purchase 262,500 shares of EPI common stock. Following the acquisition of EPI, Dr. Rudick agreed to reduce his annual base salary to $95,000 per annum, forgo any life or disability reimbursement from the Company and agree to cancel an unvested option to purchase 294,071 shares of our common stock. During March 2007, Dr. Rudick was appointed as President & Chief Medical

Officer of Pipex Neurosciences Inc., a majority owned subsidiary in which Dr. Rudick will receive five percent equity ownership.

In January 2005, we entered into a four year employment agreement with Steve H. Kanzer to serve as our Chairman and Chief Executive Officer. We agreed to pay him an annual base salary of $297,000, an annual bonus equal to 30% of his base salary and issue him a ten-year option to acquire 813,175 shares of our common stock, vesting annually over a three year period commencing at the completion of our private placement financing. As of the date of this report, we have not paid Mr. Kanzer.

During November 2005, we entered into an employment agreement as amended with John Althaus, MS, our Vice President of Advanced Technology. We currently pay Mr. Althaus $100,000 per year and we issued him 162,635 options to acquire our common stock.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding beneficial ownership of our common stock and warrants to purchase shares of common stock as of February 6, 2007 by (i) each person (or group of affiliated persons) who is known by us to own more than five percent of the outstanding shares of our common stock, (ii) each director and executive officer, and (iii) all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. The principal address of each of the stockholders listed below except as indicated is c/o Pipex Pharmaceuticals, Inc., 3985 Research Park Drive, Ann Arbor, MI 48108. We believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of February 6, 2006, which are deemed outstanding and beneficially owned by such person for purposes of computing his or her percentage ownership, but not for purposes of computing the percentage ownership of any other person.

Principal Stockholders Table

Name of Owner	Shares Owned	Percentage of Shares Outstanding
Accredited Venture Capital, LLC	23,756,955(1)	44.42%
Steve H. Kanzer	25,172,274(2)	45.84%
Ridgeback Capital Investment Ltd.	5,569,686(3)	10.54%
Firebird Capital	4,459,648(4)	8.5%
Nicholas Stergis	5,105,131(5)	9.81%
Charles Bisgaier, Ph.D.	778,091(6)	1.60%
Jeffrey J. Kraws	457,547(7)	*
A. Joseph Rudick, M.D.	569,375(8)	1.11%
Jeffrey Wolf, Esq.	75,000(9)	*
Daniel J. Dorman	2,358,574(10)	4.55%
James S. Kuo	75,000(11)	*
All officers and directors as a group (8 persons)	34,590,992	58.74%

* represents less than 1% of our common stock

(1) Consists of 21,259,138 shares of common stock,, warrants to purchase 2,497,817 shares of common stock.

(2) Consists of the 21,259,138 shares of common stock and 2,497,817 warrants, registered in the name of Accredited Venture Capital, LLC, and 195,238 common shares, 1,039,255 warrants to purchase

common stock and 180,826 options to purchase common stock held directly by Mr. Kanzer. Pharmainvestors, LLC is the managing member of Accredited Venture Capital, LLC. Mr. Kanzer is the managing member of Pharmainvestors, LLC. As such, Mr. Kanzer may be considered to have control over the voting and disposition of the shares registered in the name of Accredited Venure Capital, LLC. Mr. Kanzer disclaims beneficial ownership of those shares, except to the extent of his pecuniary interest. Excludes 542,477 options that will vest annually over two years.

(3) Consists of 3,713,129 of shares of common stock and 1,856,564 warrants to purchase common stock issued to Ridgeback Capital Investment Ltd. Ridgeback Capital Investment Ltd.'s address is 430 Park Avenue, 12th Floor, New York, New York 10022.

(4) Consists of 1,486,549 of shares of common stock and 743,275 warrants to purchase common stock issued to Firebird Global Master Fund, Ltd and 1,486,549 of shares of common stock and 743,275 warrants to purchase common stock issued to Firebird Global Master Fund II, Ltd. Firebird's address is 152 West 57th Street, 24th Floor, New York, New York 10019.

(5) Consists of 4,065,876 shares of common stock, and a warrant to purchase 1,039,255 shares of common stock, issued to Mr. Stergis. Mr. Stergis's business address is 801 Brickell Avenue, 9th Floor, Miami, Florida 33131.

(6) Consists of 332,126 vested options to purchase common stock, 148,655 shares of common stock and 74,327 warrants to purchase common stock issued to Bisgaier Family LLC, a company of which Dr. Bisgaier is the managing member; 148,655 shares of common stock and 74,327 warrants to purchase common stock issued to two trusts for which Dr. Bisgaier has control of. Excludes 1,660,618 unvested options to purchase common stock vesting over three years.

(7) Assumes the exercise of a vested option to purchase 343,160 shares of our common stock. This option is exercisable within 60 days of the date of this filing. Excludes an unvested option to purchase 228,773 shares of common stock which will vest annually over two years. Mr. Kraws's business address is 800 Third Avenue, 17th Fl., New York, NY 10022.

(8) Consists of 90,483 shares of common stock, an option to purchase 149,180 shares of common stock and a warrant to purchase 329,712 shares of common stock. Dr. Rudick's business address is 150 Broadway, Suite 1800, New York, NY 10128.

(9) Assumes the exercise of an option to purchase 75,000 shares of our common stock. Mr. Wolf's business address is c/o Seed-One Ventures, LLC, 1205 Lincoln Road, Suite 216, Miami Beach, Florida 33139.

(10) Consists of 37,131 shares of common stock registered in the name of Red Metal Capital, LLC, of which Mr. Dorman is the Managing Member, 1,485,251 shares of common stock registered in the name of AFA Private Equity Fund I, of which Mr. Dorman is a partner, 18,566 warrants to purchase common stock registered in the name of Red Metal Capital, LLC, 742,626 warrants to purchase common stock registered in the name of AFA Private Equity Fund I, and 75,000 options to purchase common stock held directly by Mr. Dorman.

(11) Consists of 75,000 options to purchase common stock.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During January 2001, we sold approximately $1.1 million of Series A Preferred Stock to Accredited Venture Capital, LLC, a company controlled by Steve H. Kanzer, our Chairman and Chief Executive Officer. From 2002 until October 2006, we relied on non-interest bearing bridge loans from Accredited Ventures, Inc. (AVI), a company controlled Steve H. Kanzer, our Chairman and Chief Executive Officer and the managing member of our largest stockholder, Accredited Venture Capital, LLC. During this 5 year period, AVI loaned us $3,363,494 for no additional consideration. In connection with the private placement during October 2006, AVI agreed to convert these loans into units in the offering. As a result of the conversion of these loans, we issued 4,995,634 million shares of common stock and 2,497,817 warrants to purchase common stock. In the merger, all shares of preferred stock were converted into common stock of the Registrant.

In connection with a private placement in October and November 2006, we engaged Accredited Equities Inc. (AEI), a company controlled by Steve H. Kanzer, our Chairman and Chief Executive Officer as our placement agent. At the closing of our private placement during October and November 2006, we paid AEI the sum of approximately $639,844 as commissions for its services and the selected dealer was paid a cash fee of $327,950. AEI also received a non-accountable expense allowance of $75,000 and a warrant to purchase 2,874,831 shares of common stock. Dr. Joseph Rudick, our director, Chief Medical Officer is a registered representative of AEI. Mr. Nicholas Stergis, our co-founder and Chief Operating Officer, is the managing director of AEI and AVI.

As part of the October 2006 private placement, Pipex sold 297,310 shares of its common stock and 148,655 warrants to purchase common stock for total proceeds of $200,000 to entities controlled by Dr. Charles Bisgaier, our President. As part of the same private placement, Pipex sold 148,655 shares of its common stock and 74,327 warrants to purchase common stock for total proceeds of $100,000 to the father of our Chairman and CEO. The terms on which their purchases were made were identical to the terms in which the other investors in these offerings purchased shares.

In connection with our acquisition of Effective Pharmaceuticals Inc. (EPI), Accredited Venture Capital, LLC and Mr. Stergis, both directors of Pipex contributed their 65.47% equity ownership in EPI to Pipex for no additional consideration. During 2005, EPI paid $152,200 to AEI for placement agent services rendered in connection with the issuance of its Series B preferred stock. EPI also issued a warrant to purchase 171,225 shares of common stock to designees of AEI, including Mr. Kanzer, Dr. Rudick and Mr. Stergis, all members of our board of directors. During March 2005, EPI repaid AVI for loans totaling $200,000 and AVI agreed to defer repayment of loans totaling $513,886 until the next financing or a merger of EPI. These EPI loans were converted into Units as part of our October 2006 private placement. Mr. Stergis had been paid $6,000 per month which increased to $8,166 per month on November 1, 2006, which was increased to $12,500 per month as of March 2007. During 2006, we paid $2,150 per month to AVI and we currently pay AVI $1,000 per month for office space. As of March 31, 2007, we no longer pay rent to AVI.

On January 5, 2007, we acquired the remaining 34.53% interest in our subsidiary EPI in exchange for 2,385,742 shares of our common stock and assumed a total of 398,126 options to purchase our common stock and 206,573 warrants to purchase our common stock. In connection therewith, Messrs. Kanzer and Stergis each exchanged their existing EPI warrants for 22,953 warrants to purchase our common stock, and Dr. Rudick exchanged EPI common stock for 90,483 shares of our common stock and exchanged his existing EPI options for 361,933 options to purchase our common stock, a majority of which is unvested, and exchanged his EPI warrants for 128,585 warrants to purchase our common stock.

We have entered into an agreement with Crystal Research Associates, LLC, a firm in which Mr. Kraws one of our directors and VP of Business Development is the CEO to write an executive information overview. Pursuant to this agreement, we have paid Crystal Research Associates $35,000 for the generation of the report.

We have employment agreements with Drs. Rudick, Bisgaier, Mr. Kraws and Mr. Kanzer, all directors and executive officers of the company. See “Employment Agreements” section of this filing for further descriptive information on employment compensation.

ITEM 13. PRINCIPAL ACCOUNTANT FEES AND SERVICES

During 2006 Berman & Company, P.A., our registered public accounting firm, billed us a total of $90,400 for audit and other services as follows:

• Audit fees of $63,400 which consist of fees related to professional services rendered in connection with the audit of our consolidated financial statements from inception through the period ending December 31, 2005;

• Audit-related fees of $27,000 which consist of fees for assurance and related services that are reasonably related to the performance of the audit and the review of our financial statements and which are not reported under “Audit Fees.” In 2006, these services related to the registration statement on Form SB-2 dated December 14, 2006 in connection with resale of shares issued in our private placement and merger.

PART IV

ITEM 14. EXHIBITS AND FINANICAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements

1. These financial statements are set forth in Item 8.

2. No financial statement schedules are required.

(b) Reports on Form 8-K

A report on Form 8-K was filed on February 22, 2007 under Item 5.02 Departure of Directors and Certain Officers; Election of Directors.

A report on Form 8-K was filed on December 1, 2006 under Item 1.01 Entry into a Material Definitive Agreement, Item 3.02 Unregistered Sales of Equity Securities and Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

3.1 Certificate of Incorporation (1)

3.2 By-Laws (1)

4.1 Form of Warrant Certificate (2)

10.1 Employment Agreement with Charles L. Bisgaier (3)

10.2 Consulting Agreement with George J. Brewer (3)

10.3 License Agreement with the Regents of the University of Michigan (3)

10.4 Research Agreement with the Regents of the University of Michigan (3)

10.5 Option and License Agreement between University of Southern California and Solovax, Inc. (3)

10.6 First Amendment to Option and License Agreement between University of Southern California and Solovax, Inc. (3)

10.7 License Agreement between Children’s Medical Center Corporation and Effective Pharmaceuticals, Inc. (3)

10.8 License Agreement between Thomas Jefferson University and CD4 Biosciences, Inc. (3)

10.9 First Amendment to License Agreement between Thomas Jefferson University and CD4 Biosciences, Inc. (3)

10.10 Private Stock Purchase Agreement with Michael Manion (3)

10.11 Lock-up Agreement with Michael Manion (3)

10.12 Lock-up Agreement with Accredited Venture Capital, LLC (3)

10.13 Lock-up Agreement with Nicholas Stergis (3)

10.14 Lock-up Agreement with Joseph Rudick (3)

10.15 Lock-up Agreement with Jeffrey Kraws (3)

10.16 Lock-up Agreement with Jeffrey Wolf (3)

10.17 Lock-up Agreement with Charles Bisgaier (3)

10.18 Unit Purchase Agreement (2)

31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a) (4)

32.1 Certification pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002. (4)

(1) Incorporated by reference to the Registrant's Form 10-KSB for the fiscal year ended December 31, 1996.

(2) Incorporated by reference to the Registrant's Form 8-K filed on December 1, 2006.

(3) Incorporated by reference to the Registrant's Form 8-K filed on November 6, 2006.

(4) Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: April 2, 2007

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 2, 2007	By: /s/ Steve H. Kanzer Steve H. Kanzer Chairman and Chief Executive Office (Principal Executive Officer and Principal Financial Officer)
Date: April 2, 2007	By: /s/ Jeffrey J. Kraws Jeffrey J. Kraws Director
Date: April 2, 2007	By: /s/ Nicholas Stergis Nicholas Stergis Director
Date: April 2, 2007	By: /s/ A. Joseph Rudick Joseph Rudick Director
Date: April 2, 2007	By: /s/ Charles Bisgaier Charles Bisgaier Director
Date: April 2, 2007	By: /s/ Jeff Wolf Jeff Wolf Director
Date: April 2, 2007	By: /s/ Daniel J. Dorman Daniel J. Dorman Director
Date: April 2, 2007	By: /s/ James S. Kuo James S. Kuo Director