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HEMISPHERX BIOPHARMA INC
Form 10-K/A
July 31, 2006

FORM 10-K/A-2
SECURITIES AND EXCHANGE COMMISSION
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No. 1-13441

HEMISPHERX BIOPHARMA, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	52-0845822 (I.R.S. Employer Identification Number)
1617 JFK Boulevard Philadelphia, Pennsylvania (Address of principal executive offices)	19103 (Zip Code)

Registrant's telephone number, including area code: (215) 988-0080

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.001 par value

Securities registered pursuant to Section 12(g) of the Act:

(Title of Each Class)
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

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

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The aggregate market value of Common Stock held by non-affiliates at June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was \$91,919,360.

The number of shares of the registrant's Common Stock outstanding as of July 12, 2006 was 62,299,252.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Explanatory Note

This second amendment on Form 10-K/A amends our amended annual report for the fiscal year ended December 31, 2005 originally filed with the Securities and Exchange Commission ("SEC") on June 5, 2006 (the "Form 10-K/A"). Primarily, we are filing this second amendment to correct disclosure in Note 19 - Quarterly Results of Operations (unaudited), to the financial statements with regard to deemed dividends recorded in the quarterly periods ended in June and September 2004.

No attempt has been made in this Form 10-K/A-2 to modify or update disclosures in the Form 10-K/A except as required to address the above issue and certain other issues noted below. This Form 10-K/A-2 does not reflect events occurring after the filing of the Form 10-K/A or modify or update any related disclosures. Information not affected by the amendment is unchanged and reflects the disclosure made at the time of the filing of the Form 10-K/A with the SEC. Accordingly, this Form 10-K/A-2 should be read in conjunction with the Form 10-K/A and our filings made with the SEC subsequent to the filing of the Form 10-K/A, including any amendments to those filings.

In accordance with Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended, the complete texts of Part II, Item 8; Part III, Items 10-15; and Part IV, Item 15 are set forth herein, including those portions of the text that have not been amended from that set forth in the Form 10-K/A. The only changes to the text from the Form 10-K/A are as follows:

Part II

Item 8. Financial Statements and Supplementary Data.

- o Note 19 to the financial statements (located at the end of this 10-K/A-2) has been revised.

Part III

Item 10. Directors and Executive Officers of the Registrant.

- o The subsection "Audit Committee and Audit Committee Expert" has been revised.

Item 11. Executive Compensation.

- o The table that sets forth certain information regarding stock options and warrants granted during 2005 to the executive officers named in the Summary Compensation Table (page zz hereof) has been revised.
- o Footnote 6 to the "Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option/Warrant Value" table has been revised.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

- o Footnote 3 to the Principal Stockholders table has been revised.

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Item 13. Certain Relationships and Related Transactions.

- o Disclosure concerning Antoni Esteve, one of our former directors, was corrected to reflect that he no longer is a Member of the Executive Committee.

ITEM 14. Principal Accounting Fees and Services.

- o The disclosure has been revised to correct audit fees paid to BDO Seidman, LLP.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

- o Updated certifications from our Chief Executive Officer and Chief Financial Officer are attached as Exhibits 31.1, 31.2, 32.1, and 32.2.

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ITEM 8. Financial Statements and Supplementary Data.

The consolidated balance sheets as of December 31, 2004 and 2005, and our consolidated statements of operations, changes in stockholders' equity and comprehensive loss and cash flows for each of the years in the three year period ended December 31, 2005, together with the report of BDO Seidman, LLP, independent registered public accountants, are included at the end of this report. Reference is made to the "Index to Financial Statements and Financial Statement Schedule" on page F-1.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following sets forth biographical information about each of our directors and executive officers as of the date of this report:

Name	Age	Position
----	---	-----
William A. Carter, M.D.	68	Chairman, Chief Executive Officer
R. Douglas Hulse	62	President
Robert E. Peterson	69	Chief Financial Officer
David R. Strayer, M.D.	60	Medical Director, Regulatory Affairs

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Mei-June Liao, Ph.D.	55	Vice President of Regulatory Affairs, Quality Control and Research and Development
Robert Hansen	62	Vice President of Manufacturing
Carol A. Smith, Ph.D.	56	Director of Process Development
Richard C. Piani	79	Director
William M. Mitchell, M.D.	71	Director
Ransom W. Etheridge	66	Director, Secretary and General Counsel
Steven D. Spence	46	Director
Iraj Eqhbal Kiani, Ph.D.	60	Director

Each director has been elected to serve until the next annual meeting of stockholders, or until his earlier resignation, removal from office, death or incapacity. Each executive officer serves at the discretion of the Board of Directors, subject to rights, if any, under contracts of employment.

WILLIAM A. CARTER, M.D., the co-inventor of Ampligen(R), joined us in 1978, and has served as: (a) our Chief Scientific Officer since May 1989; (b) the Chairman of our Board of Directors since January 1992; (c) our Chief Executive Officer since July 1993; (d) our President since April, 1995; and (e) a director since 1987. From 1987 to 1988, Dr. Carter served as our Chairman. Dr. Carter was a leading innovator in the development of human interferon for a variety of treatment indications including various viral diseases and cancer. Dr. Carter received the first FDA approval to initiate clinical trials on a beta interferon product manufactured in the U.S. under his supervision. From 1985 to October 1988, Dr. Carter served as our Chief Executive Officer and Chief Scientist. He received his M.D. degree from Duke University and underwent his post-doctoral training at the National Institutes of Health and Johns Hopkins University. Dr. Carter also served as Professor of Neoplastic Diseases at Hahnemann Medical University, a position he held from 1980 to 1998. Dr. Carter served as Director of Clinical Research for Hahnemann Medical University's Institute for Cancer and Blood Diseases, and as a professor at Johns Hopkins School of Medicine and the State University of New York at Buffalo. Dr. Carter is a Board certified physician and author of more than 200 scientific articles, including the editing of various textbooks on anti-viral and immune therapy.

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R. DOUGLAS HULSE was appointed our President and Chief Operating Officer in February 2005. Mr. Hulse has been an executive director at Sage Group, Inc., an international organization providing senior level strategic management services to the biotechnology and pharmaceutical sector, since 1995. Mr. Hulse is a Phi Beta Kappa graduate of Princeton University with a cum laude degree in chemistry and the holder of S.M. Degrees in both management and Chemical Engineering from M.I.T., previously served as our Chief Operating Officer in 1996 and 1997. Mr. Hulse devotes approximately 40 to 50% of his time to our business.

ROBERT E. PETERSON has served as our Chief Financial Officer since April, 1993 and served as an Independent Financial Advisor to us from 1989 to April, 1993. Also, Mr. Peterson has served as Vice President of the Omni Group, Inc., a

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business consulting group based in Tulsa, Oklahoma since 1985. From 1971 to 1984, Mr. Peterson worked for PepsiCo, Inc. and served in various financial management positions including Vice President and Chief Financial Officer of PepsiCo Foods International and PepsiCo Transportation, Inc. Mr. Peterson is a graduate of Eastern New Mexico University.

DAVID R. STRAYER, M.D. who served as Professor of Medicine at the Medical College of Pennsylvania and Hahnemann University, has acted as our Medical Director since 1986. He is Board Certified in Medical Oncology and Internal Medicine with research interests in the fields of cancer and immune system disorders. Dr. Strayer has served as principal investigator in studies funded by the Leukemia Society of America, the American Cancer Society, and the National Institutes of Health. Dr. Strayer attended the School of Medicine at the University of California at Los Angeles where he received his M.D. in 1972.

MEI-JUNE LIAO, Ph.D. has served as Vice President of Regulatory Affairs, Quality and Research & Development since October 2003 and as Vice President of Research & Development since March 2003 with responsibilities for the regulatory, quality control and product development of Alferon(R). Before the acquisition of certain assets of ISI, Dr. Liao was Vice President of Research and Development from 1995 to 2003 and held senior positions in the Research and Development Department of ISI from 1983 to 1994. Dr. Liao received her Ph.D. from Yale University in 1980 and completed a three year postdoctoral appointment at the Massachusetts Institute of Technology under the direction of Nobel Laureate in Medicine, Professor H. Gobind Khorana. Dr. Liao has authored many scientific publications and invention disclosures.

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ROBERT HANSEN joined us as Vice President of Manufacturing in 2003 upon the acquisition of certain assets of ISI. He is responsible for the manufacture of Alferon(R) N. Mr. Hansen had been Vice President of Manufacturing for ISI since 1997, and served in various capacities in manufacturing since joining ISI in 1987. He has a B.S. degree in Chemical Engineering from Columbia University in 1966.

CAROL A. SMITH, Ph.D. is Director of Process Development and has served as our Director of Manufacturing and Process Development since April 1995, as Director of Operations since 1993 and as the Manager of Quality Control from 1991 to 1993, with responsibility for the manufacture, control and chemistry of Ampligen(R). Dr. Smith was Scientist/Quality Assurance Officer for Virotech International, Inc. from 1989 to 1991 and Director of the Reverse Transcriptase and Interferon Laboratories and a Clinical Monitor for Life Sciences, Inc. from 1983 to 1989. She received her Ph.D. from the University of South Florida College of Medicine in 1980 and was an NIH post-doctoral fellow at the Pennsylvania State University College of Medicine.

RICHARD C. PIANI has been a director since 1995. Mr. Piani has been employed as a principal delegate for Industry to the City of Science and Industry, Paris, France, a billion dollar scientific and educational complex. Mr. Piani provided consulting to us in 1993, with respect to general business strategies for our European operations and markets. Mr. Piani served as Chairman of Industrielle du Batiment-Morin, a building materials corporation, from 1986 to 1993. Previously Mr. Piani was a Professor of International Strategy at Paris Dauphine University from 1984 to 1993. From 1979 to 1985, Mr. Piani served as Group Director in Charge of International and Commercial Affairs for Rhone-Poulenc and from 1973 to 1979 he was Chairman and Chief Executive Officer of Societe "La Cellophane", the French company which invented cellophane and several other worldwide products. Mr. Piani has a Law degree from Faculte de

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Droit, Paris Sorbonne and a Business Administration degree from Ecole des Hautes Etudes Commerciales, Paris.

RANSOM W. ETHERIDGE has been a director since October 1997, and presently serves as our secretary and general counsel. Mr. Etheridge first became associated with us in 1980 when he provided consulting services to us and participated in negotiations with respect to our initial private placement through Oppenheimer & Co., Inc. Mr. Etheridge has been practicing law since 1967, specializing in transactional law. Mr. Etheridge is a member of the Virginia State Bar, a Judicial Remedies Award Scholar, and has served as President of the Tidewater Arthritis Foundation. He is a graduate of Duke University, and received his Law degree from the University of Richmond School of Law.

WILLIAM M. MITCHELL, M.D., Ph.D. has been a director since July 1998. Dr. Mitchell is a Professor of Pathology at Vanderbilt University School of Medicine. Dr. Mitchell earned a M.D. from Vanderbilt and a Ph.D. from Johns Hopkins University, where he served as an Intern in Internal Medicine, followed by a Fellowship at its School of Medicine. Dr. Mitchell has published over 200 papers, reviews and abstracts dealing with viruses and anti-viral drugs. Dr. Mitchell has worked for and with many professional societies, including the International Society for Interferon Research, and committees, among them the National Institutes of Health, AIDS and Related Research Review Group. Dr. Mitchell previously served as one of our directors from 1987 to 1989.

STEVEN D. SPENCE was appointed to the Board of Directors in March 2005. Mr. Spence is currently Managing Partner of Valued Ventures, a consultancy Mr. Spence founded in 2003 to foster the development of micro and small cap companies. For the six years prior to founding Valued Ventures, Mr. Spence performed the duties as Managing Director at Merrill Lynch. Prior to his tenure as Managing Director, Mr. Spence has held several high-ranking management positions within Merrill Lynch including Chief Operating Officer for the Security Services Division, Global Head of the Broker Dealer Security Services Division, and Global Head of Financial Futures and Options. Mr. Spence is a graduate of Columbia University in New York City.

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IRAJ EQHBAL KIANI, M.B.A., Ph.D., was appointed to the Board of Directors on May 1, 2002. Dr. Kiani is a citizen of England and resides in Newport, California. Dr. Kiani served in various local government position including the Governor of Yasoi, Capital of Boyerahmand, Iran. In 1980, Dr. Kiani moved to England, where he established and managed several trading companies over a period of some 20 years. Dr. Kiani is a planning and logistic specialist who is now applying his knowledge and experience to build a worldwide immunology network, which will use our proprietary technology. Dr. Kiani received his Ph.D. degree from the University of Warwick in England.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent of a registered class of equity securities, to file reports with the Securities and Exchange Commission reflecting their initial position of ownership on Form 3 and changes in ownership on Form 4 or Form 5. Based solely on a review of the copies of such Forms received by us, we believe that, during the fiscal year ended December 31, 2005, all of our officers, directors and ten percent stockholders complied with all applicable Section 16(a) filing requirements on a timely basis.

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Audit Committee and Audit Committee Expert

Hemispherx's Audit Committee of the Board of Directors consists of Steven Spence, Committee Chairman, William Mitchell, M.D. and Richard Piani. Mr. Spence, Dr. Mitchell, and Mr. Piani are all determined by the Board of Directors to be independent directors as required under Section 121B(2)(a) of the AMEX Company Guide. Mr. Spence serves as the financial expert as defined in Securities and Exchange Commission rules on the committee. Hemispherx believes Mr. Spence, Dr. Mitchell, and Mr. Piani to be independent of management and free of any relationship that would interfere with their exercise of independent judgment as members of this committee. The principal functions of the Audit Committee are to (i) assist the Board in fulfilling its oversight responsibility relating to the annual independent audit of Hemispherx's consolidated financial statements and internal control over financial reporting, the engagement of the independent registered public accounting firm and the evaluation of the independent registered public accounting firm's qualifications, independence and performance (ii) prepare the reports or statements as may be required by AMEX or the securities laws, (iii) assist the Board in fulfilling its oversight responsibility relating to the integrity of Hemispherx's financial statements and financial reporting process and Hemispherx's system of internal accounting and financial controls, (iv) discuss the financial statements and reports with management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with management, and (vi) review disclosures by Hemispherx's independent registered public accounting firm concerning relationships with Hemispherx and the performance of Hemispherx's independent registered public accounting firm.

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Code of Ethics

Our Board of Directors adopted a code of ethics and business conduct for officers, directors and employees that went into effect on May 19, 2003. This code has been presented, reviewed and signed by each officer, director and employee. You may obtain a copy of this code by visiting our web site at www.hemispherx.net (Corporate Info) or by written request to our office at 1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103.

Item 11. Executive Compensation.

The summary compensation table below sets forth the aggregate compensation paid or accrued by us for the fiscal years ended December 31, 2005, 2004 and 2003 to (i) our Chief Executive Officer and (ii) our five most highly paid executive officers other than the CEO who were serving as executive officers at the end of the last completed fiscal year and whose total annual salary and bonus exceeded \$100,000 (collectively, the "Named Executives").

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Restricted Stock Awards	Warrants & Options Awards
William A. Carter	2005 (2)	623,330	-- (3)	645,000
Chairman of the Board and	2004 (2)	605,175	-- (4)	320,000
CEO	2003 (2)	582,461	-- (5)	1,450,000

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R. Douglas Hulse President and COO	2005 (6)	\$110,000	-- (6)	250,000
	2004	--	--	--
	2003	--	--	--
Robert E. Peterson Chief Financial Officer	2005 (7)	253,350	-- (8)	110,000
	2004 (7)	221,242	-- (9)	63,824
	2003 (7)	193,816	--	--
David R. Strayer, M.D. Medical Director	2005 (10)	207,304	-- (11)	10,000
	2004	180,394	-- (12)	10,000
	2003	190,096	--	--
Carol A. Smith, Ph.D. Director of Process Development	2005	138,697	-- (11)	10,000
	2004	134,658	-- (12)	10,000
	2003	140,576	--	--
Mei-June Liao, Ph.D., V.P. of Quality Control	2005	153,470	-- (11)	10,000
	2004	149,000	-- (12)	10,000
	2003 (13)	100,575	--	--
Robert Hansen V.P. of Manufacturing	2005	135,968	-- (11)	10,000
	2004	132,000	-- (12)	10,000
	2003 (13)	104,500	--	--

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- (1) Consists of insurance premiums paid by us with respect to term life and disability insurance for the benefit of the named executive officer.
 - (2) Includes bonuses of \$99,481, \$121,035 and \$124,666 in 2003, 2004 and 2005, respectively.
 - (3) Consists of stock option grants to a) acquire 100,000 shares at \$1.75 per share, b) acquire 10,000 shares at \$2.61 per share, c) acquire 70,000 shares at \$2.87 and d) to acquire 465,000 shares at \$1.86. In 2005, Dr. Carter had 535,000 previously issued options expire.
 - (4) Consist of a stock option grant of 320,000 shares exercisable at \$2.60 per share.
 - (5) Represents warrants to purchase 1,450,000 shares of common stock exercisable at \$2.20 per share.
 - (6) Reflects compensation beginning February 2005. Stock options issued to Sage Healthcare Advisors, LLC, pursuant to Mr. Hulse's employment agreement. Mr. Hulse has direct interest in 41,667 of these options.
 - (7) 2003 includes a bonus of \$37,830, 2004 includes a bonus of \$44,248 and 2005 includes a bonus of \$50,670.
 - (8) Reflects options to purchase 100,000 shares of Common Stock at \$1.75 and 10,000 shares at \$2.61 per share.
 - (9) Consist of stock option grant of 50,000 shares exercisable at \$3.44 per share and 13,824 stock options to purchase common stock at \$2.60 per share.

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- (10) Includes a bonus of \$30,000.
- (11) Consists of stock options exercisable at \$2.61 per share.
- (12) Consists of stock option grant exercisable at \$1.90 per share.
- (13) Compensation from March 2005. Employed by ISI prior to that.

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The following table sets forth certain information regarding stock options and warrants granted during 2005 to the executive officers named in the Summary Compensation Table.

Name	Individual Grants			Exercise Price Per Share (2)	Expiration Date	Potential Assumed Rate of Appreciation 5% (3)
	Number Of Securities Underlying Options/Warrants Granted	Percentage Of Total Options/Warrants Granted To Employees In Fiscal Year 2005(1)				
Carter, W.A.	100,000	47.6		\$1.75	4/26/15	\$63,3
	70,000			2.87	12/9/15	
	10,000			2.61	12/8/15	
	465,000			1.86	7/1/11	
Hulse, R.D. (4)	250,000	18.5		\$1.55	2/14/15	20,0
Peterson, R.	100,000	8.1		\$1.75	4/26/15	10,0
	10,000			\$2.61	12/8/15	
Strayer, D.	10,000	*		\$2.61	12/8/15	1,3
Smith, C.	10,000	*		\$2.61	12/8/15	1,3
Liao, M.	10,000	*		\$2.61	12/8/15	1,3
Hansen, R.	10,000	*		\$2.61	12/8/15	1,3

- (1) Total stock options and warrants issued to employees in 2005 were 1,352,600.
- (2) The exercise price is equal to the closing price of our common stock at the date of issuance.
- (3) Potential realizable value is based on an assumption that the market price of the common stock appreciates at the stated rates compounded annually, from the date of grant until the end of the respective option term. These values are calculated based on requirements promulgated by the Securities and Exchange Commission and do not reflect our estimate of future stock price appreciation.

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- (4) Reflects compensation beginning February 2005. Stock options issued to Sage Healthcare Advisors, LLC, pursuant to Mr. Hulse's employment agreement. Mr. Hulse has direct interest in 41,567 of these options.

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The following table sets forth certain information regarding the stock options and warrants held as of December 31, 2005 by the individuals named in the above Summary Compensation Table.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION/WARRANT VALUE

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Securities Underlying Unexercised Warrants/Options at Fiscal Year End Numbers		Value In-the-Money Fiscal Year End
			Exercisable	Unexercisable	
William Carter	--	--	5,515,378 (2)	257,500 (3)	\$313,6
Robert Peterson	--	--	567,574 (4)	10,000 (5)	76,0
David Strayer	--	--	137,500 (6)	12,500 (7)	9,8
Carol Smith	--	--	49,291 (8)	12,500 (7)	4,7
Mei-June Liao	--	--	7,500 (9)	12,500 (7)	1,3
Robert Hansen	--	--	7,500 (9)	12,500 (7)	1,3

(1) Computation based on \$2.17, the December 31, 2005 closing bid price for the common stock on the American Stock Exchange.

(2) Includes shares issuable upon the exercise of (i) warrants issued in 2001 to purchase 376,650 shares of common stock consisting of 188,325 exercisable at \$6.00 per share and 188,325 exercisable at \$9.00 per share, all of which expired on February 22, 2006; (ii) stock options issued in 2001 to purchase 10,000 shares of common stock at \$4.03 per share expiring January 3, 2011; (iii) warrants issued in 2002 to purchase 750,000 shares of common stock exercisable at \$2.00 per share expiring on August 7, 2007; (iv) warrants issued in 2003 to purchase 1,450,000 shares of common stock exercisable at \$2.20 per share expiring on September 8, 2008; (v) stock options issued in 2004 to purchase 320,000 shares of common stock at \$2.60 per share expiring on September 7, 2014; (vi) Stock Options issued in 2005 to purchase 100,000 shares of common stock at \$1.75 per share expiring on April 26, 2015; (vii) stock options issued in 2005 to purchase 465,000 shares of common stock at \$1.86 per share expiring July 1, 2011; (viii) stock options issued in 2005 to purchase 70,000 shares of common stock at \$2.87 per share expiring December 9, 2015; and (ix) stock options issued in 2005 to purchase 10,000 shares of common stock at \$2.61 per share expiring Decemner 8, 2015. Also includes 1,963,728 warrants and options originally issued to William A. Carter and subsequently transferred to Carter Investments of which Dr. Carter is the beneficial owner. These

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securities consist of warrants issued in 1998(a) to purchase 490,000 shares of common stock consisting of 190,000 exercisable at \$4.00 per share expiring on January 1, 2008 and 300,000 exercisable at \$6.00 per share that expired on January 1, 2006; (b) stock options granted in 1991 and extended in 1998 to purchase 73,728 shares of common stock exercisable at \$2.71 per share expiring on August 8, 2008 and (c) Warrants issued in 2002 to purchase 1,400,000 shares of common stock at \$3.50 per share expiring on September 30, 2007. The 376,650 warrants expired on February 22, 2006 and the 300,000 warrants that expired on January 1, 2006 were replaced by the Board of Directors (refer to Item 12. Security Ownership of Certain Beneficial Owners and Management).

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- (3) Consists of (i) 250,000 warrants exercisable at \$2.00 per share expiring on August 13, 2007 and 7,500 stock options exercisable at \$2.61 per share expiring on December 8, 2015.
- (4) Includes shares issuable upon exercise of (i) options issued in 1997 to purchase 13,750 shares of common stock at \$3.50 per share and expiring on January 22, 2007, (ii) options issued in 2001 to purchase 10,000 shares of common stock at \$4.03 per share and expiring on January 3, 2011, (iii) warrants issued in 2002 to purchase 200,000 shares of common stock at \$2.00 per share expiring on August 13, 2007; and (iv) options issued in 2005 to purchase 100,000 shares of common stock at \$1.75 per share expiring April 26, 2015. Also includes 243,824 warrants/options originally issued to Robert E. Peterson and subsequently transferred to the Robert E. Peterson Trust of which Robert E. Peterson is owner and Trustee. These securities include options issued in 1996 to purchase 50,000 shares of common stock exercisable at \$3.50 per share and expired on February 28, 2006; warrants issued in 1998 to purchase 100,000 shares of common stock at \$5.00 per share expiring on April 14, 2006; warrants issued in 2002 to purchase 30,000 shares of common stock exercisable at \$5.00 per share expiring on April 30, 2006 and 63,824 stock options issued in 2004 consisting of 50,000 options to acquire common stock at \$3.44 per share expiring on June 22, 2014 and 13,824 options to acquire common stock at \$2.60 per share expiring on September 7, 2014. The 50,000 options that expired on February 28, 2006 were replaced by the Board of Directors (refer to Item 12. Security Ownership of Certain Beneficial Owners and Management).
- (5) Consists of 10,000 options issued in 2005 exercisable at \$2.61 per share.
- (6) Consists of (i) 50,000 warrants exercisable at \$2.00 per share expiring on August 13, 2007, (ii) 50,000 warrants exercisable at \$4.00 per share expiring on February 28, 2008, (iii) 10,000 stock options exercisable at \$4.03 expiring on January 3, 2011; (iv) 20,000 stock options exercisable at \$3.50 per share expiring on January 22, 2007; and (v) 10,000 stock options exercisable at \$1.90 per share expiring on December 7, 2014 and 10,000 stock options exercisable at \$2.61 per share expiring on December 8, 2015.
- (7) Consists of 5,000 stock options exercisable at \$1.90 per share expiring on December 7, 2014 and 7,500 stock options exercisable at \$2.61 per share expiring on December 8, 2015.
- (8) Consists of (i) 20,000 warrants exercisable at \$2.00 per share expiring on August 13, 2007, (ii) 5,000 warrants exercisable at \$4.00 per share expiring on June 7, 2008, (iii) 10,000 stock options exercisable at \$4.03

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per share expiring on January 3, 2016; (iv) 6,791 stock options exercisable at \$3.50 per share expiring on January 22, 2007; and (v) 5,000 stock options exercisable at \$1.90 per share expiring on December 7, 2014 and 2,500 stock options exercisable at \$2.61 per share expiring on December 8, 2015.

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- (9) Consists of 5,000 options to purchase common stock at \$1.90 per share expiring on December 7, 2014 and 2,500 stock options exercisable at \$2.61 per share expiring on December 8, 2015.

Employment and Change in Control Agreements

On March 11, 2005, our board of directors, at the recommendation of the Compensation Committee, approved an amended and restated employment agreement and an amended and restated engagement agreement with Dr. William A. Carter.

The amended and restated employment agreement provides for Dr. Carter's employment as our Chief Executive Officer and Chief Scientific Officer until December 31, 2010 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date unless we or Dr. Carter give written notice otherwise at least ninety days prior to the termination date or any renewal period. Dr. Carter has the right to terminate the agreement on 30 days' prior written notice. The initial base salary retroactive to January 1, 2005 is \$290,888, subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. In addition, Dr. Carter could receive an annual performance bonus of up to 25% of his base salary, at the sole discretion of the Compensation Committee of the board of directors, based on his performance or our operating results. Dr. Carter will not participate in any discussions concerning the determination of his annual bonus. Dr. Carter is also entitled to an incentive bonus of 0.5% of the gross proceeds received by us from any joint venture or corporate partnering arrangement. Dr. Carter's agreement also provides that he be paid a base salary and benefits through the last day of the then term of the agreement if he is terminated without "cause", as that term is defined in agreement. In addition, should Dr. Carter terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Dr. Carter be paid a base salary and benefits through the last day of the month in which the termination occurred and for an additional twelve month period. Pursuant to his original agreement, Dr. Carter was granted options to purchase 73,728 (post split) shares in 1991. The exercise period of these options was extended through December 31, 2010 and, should Dr. Carter's employment agreement be extended beyond that date, the option exercise period is further extended to the last day of the extended employment period.

The amended and restated engagement agreement, retroactive to January 1, 2005, provides for our engagement of Dr. Carter as a consultant related to patent development, as one of our directors and as chairman of the Executive Committee of our board of directors until December 31, 2010 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date or any renewal period. Dr. Carter has the right to terminate the agreement on 30 days' prior written notice. The initial base fee as of January 1, 2004 is \$207,777, subject to annual adjustments equal to the percentage increase or decrease of annual dollar value of directors' fees provided to our directors during the prior year. The annual fee is further subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. In addition, Dr. Carter could receive an annual performance bonus of up to 25% of his base fee, at the

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sole direction of the Compensation Committee of the board of directors, based on his performance. Dr. Carter will not participate in any discussions concerning the determination of this annual bonus. Dr. Carter's agreement also provides that he be paid his base fee through the last day of the then term of the agreement if he is terminated without "cause", as that term is defined in the agreement. In addition, should Dr. Carter terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Dr. Carter be paid fees due him through the last day of the month in which the termination occurred and for an additional twelve month period.

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On February 14, 2005 we entered into an agreement with The Sage Group of Branchburg, New Jersey for R. Douglas Hulse, an Executive Director of The Sage Group, to serve as President and Chief Operating Officer of our company. In addition, other Sage Group principals and Senior Directors will be made available to assist as needed. The engagement is expected to continue for a period of 18 months; however, it is terminable on 30 days written notice by either party after 12 months. Compensation for the services include a ten year warrant to purchase 250,000 shares of our common stock at an exercise price of \$1.55. These warrants were issued to Sage Healthcare Advisors, LLC and are to vest at the rate of 12,500 per month of the engagement with 25,000 vesting upon completion of the eighteenth month. Vesting accelerates in the event of a merger or a purchase of a majority of our assets or equity. We valued these warrants at \$256,000 utilizing the Black-Scholes Method. As of December 31, 2005, the \$150,000 was expensed to stock compensation expense. The Sage Group also is to receive a monthly retainer of \$10,000 for the period of the engagement. In addition, for each calendar year (or part thereof) during which the agreement is in effect, The Sage Group will be entitled to an incentive bonus in an amount equal to 0.5% of the gross proceeds received by us during such year from any joint ventures or corporate partnering arrangements. After termination of the agreement, The Sage Group will only be entitled to receive the incentive bonus based upon gross proceeds received by us during the two year period commencing on the termination of the agreement with respect to any joint ventures or corporate partnering arrangements entered into by us during the term of the agreement. Mr. Hulse will devote approximately two to two and one half days per week to our business.

We entered into an engagement agreement, retroactive to January 1, 2005, with Ransom W. Etheridge which provides for Mr. Etheridge's engagement as our General Counsel until December 31, 2009 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date unless we or Mr. Etheridge give written notice otherwise at least ninety days prior to the termination date or any renewal period. Mr. Etheridge has the right to terminate the agreement on 30 days' prior written notice. The initial annual fee for services is \$96,000 and is annually subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. Mr. Etheridge's agreement also provides that he be paid all fees through the last day of then current term of the agreement if he is terminated without "cause" as that term is defined in the agreement. In addition, should Mr. Etheridge terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Mr. Etheridge be paid the fees due him through the last day of the month in which the termination occurred and for an additional twelve month period. Mr. Etheridge will devote approximately 85% of his business time to our business.

We entered into an amended and restated engagement agreement, retroactive to January 1, 2005, with Robert E. Peterson which provides for Mr. Peterson's engagement as our Chief Financial Officer until December 31, 2010 unless sooner

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terminated for cause or disability. Mr. Peterson has the right to terminate the agreement on 30 days' prior written notice. The initial annual fee for services is \$202,680 and is annually subject to increases based on the average increase in the cost of inflation index for the prior year. Mr. Peterson shall receive an annual bonus in each year that our Chief Executive Officer is granted a bonus. The bonus shall equal a percentage of Mr. Peterson's base annual compensation comparable to the percentage bonus received by the Chief Executive Officer. In addition, Mr. Peterson shall receive bonus compensation upon Federal Drug Administration approval of commercial application of Ampligen(R). Mr. Peterson's agreement also provides that he be paid all fees through the last day of then current term of the agreement if he is terminated without "cause" as that term is defined in the agreement. In addition, should Mr. Peterson terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Mr. Peterson be paid the fees due him through the last day of the month in which the termination occurred and for an additional twelve month period. Mr. Peterson will devote approximately 85% of his business time to our business.

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On March 11, 2005 the Board of Directors, deeming it essential to the best interests of our shareholders to foster the continuous engagement of key management personnel and recognizing that, as is the case with many publicly held corporations, a change of control might occur and that such possibility, and the uncertainty and questions which it might raise among management, might result in the departure or distraction of management personnel to the detriment of our company and our shareholders, determined to reinforce and encourage the continued attention and dedication of members of our management to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of our company and entered into identical agreements regarding change in control with William A. Carter, our Chief Executive Officer and Chief Scientific Officer, Robert E. Peterson, our Chief Financial Officer and Ransom W. Etheridge, our General Counsel. Each of the agreements regarding change in control became effective March 11, 2005 and continue through December 31, 2007 and shall extend automatically to the third anniversary thereof unless we give notice to the other party prior to the date of such extension that the agreement term will not be extended. Notwithstanding the foregoing, if a change in control occurs during the term of the agreements, the term of the agreements will continue through the second anniversary of the date on which the change in control occurred. Each of the agreements entitles William A. Carter, Robert E. Peterson and Ransom W. Etheridge, respectively, to change of control benefits, as defined in the agreements and summarized below, upon their respective termination of employment/engagement with our company during a potential change in control, as defined in the agreements or after a change in control, as defined in the agreements, when their respective terminations are caused (1) by us for any reason other than permanent disability or cause, as defined in the agreement (2) by William A. Carter, Robert E. Peterson and/or Ransom W. Etheridge, respectively, for good reason as defined in the agreement or, (3) by William A. Carter, Robert E. Peterson and/or Ransom W. Etheridge, respectively for any reason during the 30 day period commencing on the first date which is six months after the date of the change in control.

The benefits for each of the foregoing executives would be as follows:

- o A lump sum cash payment of three times his base salary and annual bonus amounts; and
- o Outplacement benefits.

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Each agreement also provides that the executive is entitled to a "gross-up" payment to make him whole for any federal excise tax imposed on change of control or severance payments received by him.

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Dr. Carter's agreement also provides for the following benefits:

- o Continued insurance coverage through the third anniversary of his termination; and
- o Retirement benefits computed as if he had continued to work for the above period.

Compensation of Directors

The compensation package for non-employee members of the Board of Directors was changed on September 9, 2003. Board member compensation consists of an annual retainer of \$100,000 to be paid 50% in cash and 50% in our common stock. On September 9, 2003 the Directors approved a 10 year plan which authorizes up to 1,000,000 shares for use in supporting this compensation plan. The number of shares paid shall have a value of \$12,500 with the value of the shares being determined by the closing price of our common stock on the American Stock Exchange on the last day of the calendar quarter. In addition, all non-employee directors received some compensation in 2003 for special project work performed on our behalf. This project work ceased as of September 30, 2003. All directors have been granted options to purchase common stock under our Stock Option Plans and/or Warrants to purchase common stock. We believe such compensation and payments are necessary in order for us to attract and retain qualified outside directors.

2004 Equity Incentive Plan

Our 2004 Equity Incentive Plan ("2004 Plan") provides for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and other stock awards to our employees, directors, officers, consultants and advisors for the purchase of up to an aggregate of 8,000,000 shares of common stock. The 2004 plan is administered by the board of directors, which has complete discretion to select eligible individuals to receive and to establish the terms of grants under the plan. Stock options awarded under the Equity Incentive Plan may be exercisable at such times (not later than 10 years after the date of grant) and at such exercise prices (not less than fair market value at the date of grant) as the Board may determine. The Board may provide for options to become immediately exercisable upon a "change in control" as defined in the plan. The number of shares of common stock available for grant under the 2004 Plan is subject to adjustment for changes in capitalization. As of December 31, 2005, 6,014,320 shares were available for grants under the 2004 Plan, 633,080 and 1,352,600 options were issued in 2004 and 2005, respectively. Unless sooner terminated, the Equity Incentive Plan will continue in effect for a period of 10 years from its effective date

1990 Stock Option Plan

Our 1990 Stock Option Plan, as amended ("1990 Plan"), provides for the grant of options to our employees, directors, officers, consultants and advisors for the purchase of up to an aggregate of 460,798 shares of common stock. The 1990 Plan is administered by the Compensation Committee of the board of directors, which has complete discretion to select eligible individuals to

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receive and to establish the terms of option grants. The number of shares of common stock available for grant under the 1990 Plan is subject to adjustment for changes in capitalization. As of December 31, 2004 and 2005, 18,881 options were available for grants under the 1990 Plan. This plan remains in effect until terminated by the Board of Directors or until all options are issued.

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401(K) Plan

In December 1995, we established a defined contribution plan, effective January 1, 1995, entitled the Hemispherx Biopharma employees 401(K) Plan and Trust Agreement. All of our full time employees are eligible to participate in the 401(K) plan following one year of employment. Subject to certain limitations imposed by federal tax laws, participants are eligible to contribute up to 15% of their salary (including bonuses and/or commissions) per annum. Participants' contributions to the 401(K) plan may be matched by Hemispherx at a rate determined annually by the board of directors. Each participant immediately vests in his or her deferred salary contributions, while our contributions will vest over one year. See Note 12 to the consolidated financial statements contained herein.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee of the Board of Directors consists of , the Committee Chairman, William Mitchell, M.D., Richard Piani, Dr. Iraj E. Kiani and are all independent directors. There are no interlocking relationships.

Compensation Committee Report on Compensation

The Compensation Committee makes recommendations concerning salaries and compensation for our employees and consultants.

The following report of the compensation committee discusses our executive compensation policies and the basis of the compensation paid to our executive officers in 2005.

In general, the compensation committee seeks to link the compensation paid to each executive officer to the experience and performance of such executive officer. Within these parameters, the executive compensation program attempts to provide an overall level of executive compensation that is competitive with companies of comparable size and with similar market and operating characteristics.

There are three elements in our executive total compensation program, all determined by individual and corporate performance as specified in the various employment agreements; base salary, annual incentive, and long-term incentives.

Base Salary

The Summary Compensation Table shows amounts earned during 2005 by our executive officers. The base compensation of such executive officers is set by terms of the employment agreement entered into with each such executive officer. We established the base salaries for Chief Executive Officer, Dr. William A. Carter under an employment agreement in December 3, 1998 (as amended and restated on March 11, 2005), which provides for a base salary of \$290,888. In addition, we entered into an agreement with Dr. Carter for his services as a consultant related to patient development, development of patents and as a member of our Board of Directors. This agreement establishes a base annual fee

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of \$207,777. Both agreements are subject to annual cost of living adjustments. Dr. Carter is entitled to an annual performance bonus of up to 25% of the base salary of each agreement at the discretion of the compensation committee of the Board of Directors.

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On March 11, 2005, we entered into an extended engagement agreement with Robert E. Peterson, Chief Financial Officer retroactive to January 1, 2005 for a base annual fee of \$202,680 until December 31, 2010. Mr. Peterson's agreement allows for annual cost of living increases and a performance bonus.

On March 11, 2005, we entered into an engagement agreement with Ransom W. Etheridge, Corporate General Counsel, retroactive to January 1, 2005 for an annual fee of \$96,000 until December 31, 2009.

Annual Incentive

Our Chief Executive Officer and our Chief Financial Officer are entitled to an annual incentive bonus as determined by the compensation committee based on such executive officers' performance during the previous calendar year. The cash bonus awarded to our Chief Executive Officer in 2004 and 2005 and the cash bonus awarded to the Chief Financial Officer in 2004 and 2005 were determined based on this provision in their employment agreements.

Long-Term Incentives

We grant long-term incentive awards periodically to align a significant portion of the executive compensation program with stockholder interest over the long-term through encouraging and facilitating executive stock ownership. Executives are eligible to participate in our incentive stock option plans. Our Chief Executive Officer and President, Dr. William Carter, received a grant of 645,000 stock options in 2005 of which 535,000 were issued to replace options previously awarded that expired. These options are exercisable at rates varying from \$1.75 to \$2.87 per share. The options vested on the date of grant.

On April 26, 2005, our Chief Financial Officer, Robert E. Peterson, was granted 100,000 stock options exercisable at \$1.75 per share expiring on April 26, 2015 unless previously exercised. On December 8, 2005 Mr. Peterson was granted 10,000 stock options exercisable at \$2.61 per share expiring on December 8, 2015.

Ransom Etheridge, our Corporate Secretary and General Counsel, was awarded 100,000 stock options on April 26, 2005 exercisable at \$1.75 per share expiring April 26, 2015, unless previously exercised.

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Performance Graph

Total Return to Shareholders
(Includes reinvestment of dividends)

ANNUAL RETURN PERCENTAGE
Years Ending

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Company Name / Index	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05
HEMISPHERX BIOPHARMA INC	-5.26	-52.67	6.10	-15.93	14.21
S&P 600 INDEX	6.54	-14.63	38.79	22.65	7.68
PEER GROUP	48.39	-45.76	5.33	-52.63	-41.59

Company Name / Index	Base Period Dec 00	INDEXED RETURNS Years Ending				
		Dec 01	Dec 02	Dec 03	Dec 04	Dec 05
HEMISPHERX BIOPHARMA INC	100	94.74	44.84	47.58	40.00	45.68
S&P 600 INDEX	100	106.54	90.95	126.23	154.82	166.71
PEER GROUP	100	148.39	80.49	84.78	40.16	23.46

Peer Group Companies

AVI BIOPHARMA INC
IMMUNE RESPONSE CORP/DE
LA JOLLA PHARMACEUTICAL CO
MAXIM PHARMACEUTICALS INC

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[GRAPHIC]

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth as of May 26, 2006, the number and percentage of outstanding shares of common stock beneficially owned by:

- o Each person, individually or as a group, known to us to be deemed the beneficial owners of five percent or more of our issued and outstanding common stock;
- o each of our directors and the Named Executives; and
- o all of our officers and directors as a group.

As of March 24, 2006, there were no other persons, individually or as a group, known to the Hemispherx to be deemed the beneficial owners of five percent or more of the issued and outstanding common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned	% Of Shares Beneficially Owned
William A. Carter, M.D.	6,272,868 (1)	9.3
Robert E. Peterson	585,574 (2)	*
Ransom W. Etheridge 2610 Potters Rd. Virginia Beach, VA 23452	642,560 (3)	1.0
Richard C. Piani 97 Rue Jeans-Jaures	450,602 (4)	*

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Doug Hulse Sage Group, Inc. 3322 Route 22 West Building 2, Suite 201 Branchburg, NJ 08876	131,067 (5)	*
William M. Mitchell, M.D. Vanderbilt University Department of Pathology Medical Center North 21st and Garland Nashville, TN 37232	397,884 (6)	*
David R. Strayer, M.D.	160,746 (7)	*
Carol A. Smith, Ph.D.	61,791 (8)	*
Iraj-Eqhbali Kiani, Ph.D. Orange County Immune Institute 18800 Delaware Street Huntingdon Beach, CA 92648	97,797 (9)	*
Steven Spence	197,883 (10)	*
Mei-June Liao, Ph.D.	20,000 (11)	*
Robert Hansen	20,000 (11)	*
All directors and executive officers as a group (11 persons)	9,038,772	12.9%

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* Less than 1%

(1) Includes shares issuable upon the exercise of (i) replacement options issued in 2006 to purchase 376,650 shares of common stock exercisable at \$3.78 per share expiring on February 22, 2016; (ii) stock options issued in 2001 to purchase 10,000 shares of common stock at \$4.03 per share expiring January 3, 2011; (iii) warrants issued in 2002 to purchase 1,000,000 shares of common stock exercisable at \$2.00 per share expiring on August 7, 2007; (iv) warrants issued in 2003 to purchase 1,450,000 shares of common stock exercisable at \$2.20 per share expiring on September 8, 2008; (v) stock options issued in 2004 to purchase 320,000 shares of common stock at \$2.60 per share expiring on September 7, 2014; (vi) Stock Options issued in 2005 to purchase 100,000 shares of common stock at \$1.75 per share expiring on April 26, 2015; (vii) Stock options issued in 2005 to purchase 465,000 shares of common stock at \$1.86 per share expiring July 1, 2011; and (viii) stock options issued in 2005 to purchase 70,000 shares of Common Stock at \$2.87 per share expiring December 9, 2015; (ix) stock options issued in 2005 to purchase 10,000 shares of Common Stock at \$2.61 per share expiring December 8, 2015; and (x) 507,490 shares of Common Stock. Also includes 1,963,728 warrants and options originally issued to William A. Carter and subsequently transferred to Carter Investments of which Dr. Carter is the beneficial owner. These securities consist of warrants issued in 1998(a) to purchase

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490,000 shares of common stock consisting of 190,000 exercisable at \$4.00 per share expiring on January 1, 2008 and 300,000 exercisable at \$2.38 per share expiring January 1, 2016; (b) stock options granted in 1991 and extended in 1998 to purchase 73,728 shares of common stock exercisable at \$2.71 per share expiring on August 8, 2008 and (c) Warrants issued in 2002 to purchase 1,400,000 shares of common stock at \$3.50 per share expiring on September 30, 2007.

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- (2) Includes shares issuable upon exercise of (i) options issued in 1997 to purchase 13,750 shares of common stock at \$3.50 per share and expiring on January 22, 2007; (ii) options issued in 2001 to purchase 10,000 shares of common stock at \$4.03 per share and expiring on January 3, 2011; (iii) warrants issued in 2002 to purchase 200,000 shares of common stock at \$2.00 per share expiring on August 13, 2007; (iv) options issued in 2005 to purchase 100,000 shares of common stock at \$1.75 per share expiring April 26, 2015; (v) options issued in 2005 to purchase 10,000 shares of Common Stock at \$2.61 per share expiring December 8, 2015; and (vi) 8,000 shares of Common Stock. Also includes 243,824 warrants/options originally issued to Robert E. Peterson and subsequently transferred to the Robert E. Peterson Trust of which Robert E. Peterson is owner and Trustee. These securities include options issued in 2006 to purchase 50,000 shares of common stock exercisable at \$3.66 per share expiring on February 28, 2016; replacement options issued in 2006 to purchase 100,000 shares of common stock at \$3.48 per share expiring on April 14, 2016; replacement options issued in 2006 to purchase 30,000 shares of common stock exercisable at \$3.55 per share expiring on April 30, 2016 and 63,824 stock options issued in 2004 consisting of 50,000 options to acquire common stock at \$3.44 per share expiring on June 22, 2014 and 13,824 options to acquire common stock at \$2.60 per share expiring on September 7, 2014.

Includes shares issuable upon exercise of (i) 20,000 warrants issued in 1998 to purchase common stock at \$4.00 per share, originally expiring on January 1, 2003 and extended to January 1, 2008; (ii) 100,000 warrants issued in 2002 exercisable \$2.00 per share expiring on August 13, 2007; (iii) stock options issued in 2005 to purchase 100,000 shares of common stock exercisable at \$1.75 per share expiring on April 26, 2015; and (iv) stock options issued in 2004 to purchase 50,000 shares of common stock exercisable at \$2.60 per share expiring on September 7, 2014; (v) stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at \$3.86 per share expiring February 24, 2006 and (vi) 122,560 shares of common stock. Also includes 200,000 stock options originally granted to Ransom Etheridge in 2003 and subsequently transferred to relatives and family trusts. These stock options are exercisable at \$2.75 per share and expires on December 4, 2013. The transfers consist of 37,500 options to Julianne Inqlima; 37,500 options to Thomas Inqlima; 37,500 options to R. Etheridge-BMI Trust; and 37,500 options to R. Etheridge-TCI Trust and 50,000 options to the Family Trust. Julianne and Thomas are Mr. Etheridge's daughter and son-in-law.

- (3) Includes shares issuable upon exercise of (i) 20,000 warrants issued in 1998 to purchase common stock at \$4.00 per share originally expiring on January 1, 2005 and extended to January 1, 2008; (ii) 100,000 warrants issued in 2003 exercisable at \$2.00 per share expiring on August 13, 2007; (iii) options granted in 2004 to purchase 54,608 shares of common stock exercisable at \$2.60 per share expiring on September 17, 2014; (iv) options granted in 2005 to purchase 100,000 shares of common stock exercisable at \$1.75 per share expiring on April 26, 2015; (v) stock

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options issued in 2006 to purchase 50,000 shares of common stock exercisable at \$3.86 per share expiring February 24, 2006; (vi) 108,094 shares of common stock owned by Mr. Piani; vii) 12,900 shares of common stock owned jointly by Mr. and Mrs. Piani; and (viii) and 5,000 shares of common stock owned by Mrs. Piani.

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- (4) Consists of 41,667 options exercisable at \$1.55 per share expiring February 14, 2015. Shares owned includes 89,400 shares of common stock in which Mr. Hulse has an undivided interest. These shares are held by Sage Healthcare Advisors, LLC of which Mr. Hulse is a principal.
- (5) Includes shares issuable upon exercise of (i) warrants issued in 1998 to purchase 12,000 shares of common stock at \$6.00 per share, expiring on August 25, 2008; (ii) 100,000 warrants issued in 2002 exercisable at \$2.00 per share expiring on August 13, 2007; (iii) 50,000 stock options issued in 2004 exercisable at \$2.60 per share expiring on September 7, 2014; (iv) 100,000 stock options issued in 2005 exercisable at \$1.75 per share expiring on April 26, 2015; (v) stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at \$3.86 per share expiring February 24, 2006; and (vi) 85,884 shares of common stock.
- (6) (i) stock options issued in 1997 to purchase 20,000 shares of common stock at \$3.50 per share expiring on February 22, 2007; (ii) warrants issued in 1998 to purchase 50,000 shares of common stock exercisable at \$4.00 per share expiring on February 28, 2008; (iii) stock options granted in 2001 to purchase 10,000 shares of common stock exercisable at \$4.03 per share expiring on January 3, 2011; (iv) warrants issued in 2002 to purchase 50,000 shares of common stock exercisable at \$2.00 per share expiring on August 13, 2007; (v) stock options issued in 2004 to purchase 10,000 shares of common stock exercisable at \$1.90 per share expiring on December 7, 2014; (vi) stock options issued in 2005 to purchase 10,000 shares of Common Stock at \$2.61 per share expiring December 8, 2015 and (vii) 10,746 shares of common stock.
- (7) Consists of shares issuable upon exercise of (i) 5,000 warrants issued in 1998 to purchase common stock at \$4.00 per share expiring June 7, 2008; (ii) 20,000 warrants issued in 2002 exercisable at \$2.00 per share expiring in August 13, 2007; (iii) 6,791 stock options issued in 1997 exercisable at \$3.50 expiring January 22, 2007; (iv) 10,000 stock options issued in 2001 exercisable at \$4.03 per share expiring January 3, 2011; (v) 10,000 stock options issued in 2004 exercisable at \$1.90 expiring on December 7, 2014; and 10,000 stock options issued in 2005 to purchase Common Stock at \$2.61 per share expiring December 8, 2015.
- (8) Consists of shares issuable upon exercise of (i) 12,000 options issued in 2005 exercisable at \$1.63 per share expiring on June 2, 2015; (ii) 15,000 options issued in 2005 exercisable at \$1.75 per share expiring on April 26, 2015; (iii) stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at \$3.86 per share expiring February 24, 2006; and (iv) 20,797 shares of common stock.
- (9) Consists of 15,000 stock options granted in 2005 exercisable at \$1.75 per share expiring on April 26, 2015; stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at \$3.86 per share expiring February 24, 2006; and 132,883 shares of common stock.
- (10) Consists of 10,000 stock options granted in 2004 exercisable at \$1.90 per

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share of common stock expiring on December 7, 2014; and 10,000 stock options issued in 2005 to purchase Common Stock at \$2.61 per share expiring December 8, 2015.

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Item 13. Certain Relationships and Related Transactions.

We have employment agreements with certain of our executive officers and have granted such officers and directors options and warrants to purchase our common stock, as discussed under the headings, "Item 11. Executive Compensation," and "Item 12. Security Ownership of Certain Beneficial Owners and Management," above.

Ransom W. Etheridge, our Secretary, General Counsel and one of our directors, is an attorney in private practice, who renders corporate legal services to us from time to time, for which he has received fees totaling \$88,000 in 2005. In addition, Mr. Etheridge serves on the Board of Directors for which he received Director's Fees of cash and stock valued at \$100,000 in 2005. We loaned \$60,000 to Ransom W. Etheridge in November, 2001 for the purpose of exercising 15,000 class A redeemable warrants. This loan bore interest at 6% per annum. This loan was granted prior to the enactment of the Sarbanes Oxley Act of 2002 prohibiting such transactions. In lieu of granting Mr. Etheridge a bonus for outstanding legal work performed on behalf of the Company, the Board of Directors forgave the loan and accrued interest on February 24, 2006.

Richard Piani, a Director, lives in Paris, France and assisted our European subsidiaries in their dealings with medical institutions and the European Medical Evaluation Authority. Mr. Piani assisted us in establishing clinical trial protocols as well as performed other scientific work for us. The services provided by Mr. Piani terminated in September 2003. For these services, Mr. Piani was paid an aggregate of \$100,100 for the year ended December 31, 2003.

We paid \$18,800, and \$7,600 for the years ended December 31, 2003 and 2004, respectively to Carter Realty for the rent of property used by us at various times in years 2003 and 2004 by us. The property was owned by others, but was acquired in late 2004 by Retreat House, LLC an entity in which the children of William A. Carter have a beneficial interest. We paid Retreat House, LLC \$54,400 for the use of the property at various times in 2005.

Antoni Esteve, one of our former directors, was a Member of the Executive Committee and Director of Scientific and Commercial Operations of Laboratorios Del Dr. Esteve S.A. In March 2002, our European subsidiary Hemispherx S.A. entered into a Sales and Distribution Agreement with Laboratorios Del Dr. Esteve S.A. In addition, in March 2003, we issued 347,445 shares of our common stock to Provesan SA, an affiliate of Laboratorios Del Dr. Esteve S.A., in exchange for 1,000,000 Euros of convertible preferred equity certificates of Hemispherx S.A., owned by Laboratorios Del Dr. Esteve S.A.

We have engaged the Sage Group, Inc., a health care, technology oriented, strategy and transaction advisory firm, to assist us in obtaining a strategic alliance in Japan for the use of Ampligen(R) in treating Chronic Fatigue Syndrome (CFS) and Avian Flu. R. Douglas Hulse, our President and Chief Operating Officer, is a member and an executive director of The Sage Group, Inc. Please see "Employment and Change in Control Agreements" in Item 11. Executive Compensation above for more information.

ITEM 14. Principal Accounting Fees and Services.

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All audit and professional services provided by BDO Seidman, LLP are approved in advance by the Audit Committee to assure such services do not impair the auditor's independence from us. The total fees billed by BDO Seidman, LLP were \$226,484 in 2004 and \$591,000 in 2005. The following table shows the aggregate fees billed to us by BDO Seidman, LLP for professional services rendered during the year ended December 31, 2005.

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Description of Fees	Amount (\$)	
	2004	2005*
Audit Fees	\$189,475	\$591,000
Audit-Related Fees	37,009	--
Tax Fees	--	--
All Other Fees	--	--
Total	\$226,484	\$591,000

* Fees for 2005 have not yet been finalized.

Audit Fees

Represents fees for professional services provided for the audit of our annual financial statements, audit of the effectiveness of internal control over financial reporting, services that are performed to comply with generally accepted auditing standards, and review of our financial statements included in our quarterly reports and services in connection with statutory and regulatory filings.

Audit-Related Fees

Represents the fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements.

The Audit Committee has determined that BDO Seidman, LLP's rendering of these non-audit services is compatible with maintaining auditors independence. The Board of Directors considers BDO Seidman, LLP to be well qualified to serve as our independent public accountants. The committee also pre-approved the charges for services performed in 2005.

The Audit Committee pre-approves all auditing services and the terms thereof (which may include providing comfort letters in connection with securities underwriting) and non-audit services (other than non-audit services prohibited under Section 10A(g) of the Exchange Act or the applicable rules of the SEC or the Public Company Accounting Oversight Board) to be provided to us by the independent auditor; provided, however, the pre-approval requirement is waived with respect to the provisions of non-audit services for us if the "de minimus" provisions of Section 10A (i) (1) (B) of the Exchange Act are satisfied. This authority to pre-approve non-audit services may be delegated to one or more members of the Audit Committee, who shall present all decisions to pre-approve an activity to the full Audit Committee at its first meeting following such decision.

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules

- (a) Financial Statements and Schedules - See index to financial statements on page F-1 of this Annual Report.

All other schedules called for under regulation S-X are not submitted because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto.

- (b) Exhibits - See exhibit index below.

Except as disclosed in the footnotes, the following exhibits were filed with the Securities and Exchange Commission as exhibits to our Form S-1 Registration Statement (No. 33-93314) or amendments thereto and are hereby incorporated by reference:

Exhibit

No.	Description
2.1	First Asset Purchase Agreement dated March 11, 2003, by and between the Company and ISI.(1)
2.2	Second Asset Purchase Agreement dated March 11, 2003, by and between the Company and ISI.(1)
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended, along with Certificates of Designations.
3.1.1	Series E Preferred Stock.
3.2	By-laws of Registrant, as amended.
4.1	Specimen certificate representing our Common Stock.
4.2	Rights Agreement, dated as of November 19, 2002, between the Company and Continental Stock Transfer & Trust Company. The Right Agreement includes the Form of Certificate of Designation, Preferences and Rights of the Series A Junior Participating Preferred Stock, the Form of Rights Certificate and the Summary of the Right to Purchase Preferred Stock.(2)
4.3	Form of 6% Convertible Debenture of the Company issued in March 2003.(1)
4.4	Form of Warrant for Common Stock of the Company issued in March 2003.(1)
4.5	Form of Warrant for Common Stock of the Company issued in June 2003.(3)
4.6	Form of 6% Convertible Debenture of the Company issued in July 2003.(4)
4.7	Form of Warrant for Common Stock of the Company issued in July 2003.(4)
4.8	Form of 6% Convertible Debenture of the Company issued in October 2003.

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- (5)
- 4.9 Form of Warrant for Common Stock of the Company issued in October 2003.
(5)
- 4.10 Form of 6% Convertible Debenture of the Company issued in January 2004.
(6)
- 4.11 Form of Warrant for Common Stock of the Company issued in January 2004.
(6)
- 4.12 Form of Warrant for Common Stock of the Company. (9)
- 4.13 Amendment Agreement, effective October 6, 2005, by and among the Company and debenture holders.(11) 4.14 Form of Series A amended 7% Convertible Debenture of the Company (amending Debenture due October 31, 2005).(11)
- 4.15 Form of Series B amended 7% Convertible Debenture of the Company (amending Debenture issued on January 26, 2004 and due January 31, 2006).(11)
- 4.16 Form of Series C amended 7% Convertible Debenture of the Company (amending Debenture issued on July 13, 2004 and due January 31, 2006).(11)

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- 4.17 Form of Warrant issued effective October 6, 2005 for Common Stock of the Company.(11)
- 10.1 1990 Stock Option Plan.
- 10.2 1992 Stock Option Plan.
- 10.3 1993 Employee Stock Purchase Plan.
- 10.4 Form of Confidentiality, Invention and Non-Compete Agreement.
- 10.5 Form of Clinical Research Agreement.
- 10.6 Form of Collaboration Agreement.
- 10.7 Amended and Restated Employment Agreement by and between the Company and Dr. William A. Carter, dated as of July 1, 1993. (7)
- 10.8 Employment Agreement by and between the Registrant and Robert E. Peterson, dated April 1, 2001.
- 10.9 License Agreement by and between the Company and The Johns Hopkins University, dated December 31, 1980.
- 10.10 Technology Transfer, Patent License and Supply Agreement by and between the Company, Pharmacia LKB Biotechnology Inc., Pharmacia P-LBiochemicals Inc. and E.I. du Pont de Nemours and Company, dated November 24, 1987.
- 10.11 Pharmaceutical Use Agreement, by and between the Company and Temple University, dated August 3, 1988.

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- 10.12 Assignment and Research Support Agreement by and between the Company, Hahnemann University and Dr. David Strayer, Dr. Isadore Brodsky and Dr. David Gillespie, dated June 30, 1989.
- 10.13 Lease Agreement between the Company and Red Gate Limited Partnership, dated November 1, 1989, relating to the Company's Rockville, Maryland facility.
- 10.14 Agreement between the Company and Bioclones (Proprietary) Limited.
- 10.15 Amendment, dated August 3, 1995, to Agreement between the Company and Bioclones (Proprietary) Limited (contained in Exhibit 10.14).
- 10.16 Licensing Agreement with Core BioTech Corp.
- 10.17 Licensing Agreement with BioPro Corp.
- 10.18 Licensing Agreement with BioAegean Corp.
- 10.19 Agreement with Esteve.
- 10.20 Agreement with Accredo (formerly Gentiva) Health Services.
- 10.21 Agreement with Biovail Corporation International.
- 10.22 Forbearance Agreement dated March 11, 2003, by and between ISI, the American National Red Cross and the Company.(1)
- 10.23 Forbearance Agreement dated March 11, 2003, by and between ISI, GP Strategies Corporation and the Company.(1)
- 10.24 Securities Purchase Agreement, dated March 12, 2003, by and among the Company and the Buyers named therein.(1)
- 10.25 Registration Rights Agreement, dated March 12, 2003, by and among the Company and the Buyers named therein.(1)
- 10.26 Securities Purchase Agreement, dated July 10, 2003, by and among the Company and the Buyers named therein.(4)
- 10.27 Registration Rights Agreement, dated July 10, 2003, by and among the Company and the Buyers named therein.(4)
- 10.28 Securities Purchase Agreement, dated October 29, 2003, by and among the Company and the Buyers named therein.(5)
- 10.29 Registration Rights Agreement, dated October 29, 2003, by and among the Company and the Buyers named therein.(5)
- 10.30 Securities Purchase Agreement, dated January 26, 2004, by and among the Company and the Buyers named therein.(6)
- 10.31 Registration Rights Agreement, dated January 26, 2004, by and among the Company and the Buyers named therein.(6)
- 10.32 Memorandum of Understanding with Fujisawa. (8)
- 10.33 Securities Purchase Agreement, dated July 30, 2004, by and among the Company and the Purchasers named therein.(9)

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- 10.34 Registration Rights Agreement, dated July 30, 2004, by and among the Company and the Purchasers named therein. (9)
- 10.35 Agreement for services of R. Douglas Hulse, (12)
- 10.36 Amended and Restated Employment Agreement of Dr. William A. Carter. (10)
- 10.37 Engagement Agreement with Dr. William A. Carter. (10)
- 10.38 Amended and restated employment agreement of Dr. William A. Carter (12)
- 10.39 Amended and restated engagement agreement with Dr. William A. Carter(12)
- 10.40 Amended and restated engagement agreement with Robert E. Peterson (12)
- 10.41 Engagement Agreement with Ransom W. Etheridge (12)
- 10.42 Change in control agreement with Dr. William A. Carter (12)
- 10.43 Change in control agreement with Dr. William A. Carter (12)
- 10.44 Change in control agreement with Robert E. Peterson (12)
- 10.45 Change in control agreement with Ransom Etheridge (12)
- 10.46 Supply Agreement with Hollister-Stier Laboratories LLC
- 10.47 Manufacturing and Safety Agreement with Hyaluron, Inc.
- 10.48 Common Stock Purchase Agreement, dated July 8, 2005, by and among the Company and Fusion Capital.(13)
- 10.49 Registration Rights Agreement, dated July 8, 2005, by and among the Company and Fusion Capital.(13)
- 21 Subsidiaries of the Registrant.
- 23.1 BDO Seidman, LLP consent.(15)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.(15)
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.(15)
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.(15)
- 32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.(15)

(1) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated March 12, 2003 and is hereby incorporated by reference.

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(2) Filed with the Securities and Exchange Commission on November 20, 2002 as an exhibit to the Company's Registration Statement on Form 8-A (No. 0-27072) and is hereby incorporated by reference.

(3) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated June 27, 2003 and is hereby incorporated by reference.

(4) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated July 14, 2003 and is hereby incorporated by reference.

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(5) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated October 30, 2003 and is hereby incorporated by reference.

(6) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated January 27, 2004 and is hereby incorporated by reference.

(7) Filed with the Securities and Exchange Commission as an exhibit to the Company's quarterly report on Form 10-Q (No. 1-13441) for the period ended September 30, 2001 and is hereby incorporated by reference.

(8) Filed with the Securities and Exchange Commission as an exhibit to the Company's Form S-1 Registration Statement (No. 333-113796) and is hereby incorporated by reference.

(9) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated August 6, 2004 and is hereby incorporated by reference.

(10) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated September 15, 2004 and is hereby incorporated by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K/A-1 (No. 1-13441) filed on October 28, 2005 and is hereby incorporated by reference.

(12) Filed with the Securities and Exchange Commission as an exhibit to the Company's annual report on Form 10-K (No. 1-13441) for the year ended December 31, 2004 and is hereby incorporated by reference.

(13) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated September 15, 2005 and is hereby incorporated by reference.

(14) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated April 12, 2006 and is hereby incorporated by reference.

(15) Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEMISPHERx BIOPHARMA, INC.

By: /s/ William A. Carter

William A. Carter, M.D.
Chief Executive Officer

July 31, 2006

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange of 1934, as amended, this amended report has been signed below by the following persons on behalf of this Registrant and in the capacities and on the dates indicated.

/s/ William A. Carter ----- William A. Carter, M.D.	Chairman of the Board, Chief Executive Officer and Director	July 31, 2006
---	---	---------------

/s/ Richard Piani ----- Richard Piani	Director	July 28, 2006
---	----------	---------------

/s/ Robert E. Peterson ----- Robert E. Peterson	Chief Financial Officer	July 31, 2006
---	-------------------------	---------------

/s/ Ransom Etheridge ----- Ransom Etheridge	Secretary And Director	July 27, 2006
---	------------------------	---------------

/s/ William Mitchell ----- William Mitchell, M.D., Ph.D.	Director	July 27, 2006
--	----------	---------------

/s/ Steven Spence ----- Steven Spence	Director	July 31, 2006
---	----------	---------------

/s/ Iraj E. Kiani ----- Iraj E. Kiani, Ph.D.	Director	July 29, 2006
--	----------	---------------

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HEMISPHERx BIOPHARMA, INC AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Hemispherx Biopharma, Inc.

We have audited the accompanying consolidated balance sheets of Hemispherx Biopharma, Inc. and subsidiaries as of December 31, 2004 and 2005 and the related consolidated statements of operations, changes in stockholders' equity and comprehensive loss and cash flows for each of the three years in the period ended December 31, 2005. We have also audited the financial statement schedule listed under Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing 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 and financial statement schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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

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opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hemispherx Biopharma, Inc. and subsidiaries as of December 31, 2004 and 2005 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein for each of the three years in the period ended December 31, 2005.

As discussed in Note 2, the Company has restated its balance sheet as of December 31, 2004 and the statements of operations, changes in stockholders equity and comprehensive loss and cash flows for the years ended December 31, 2003 and 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hemispherx Biopharma, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 1, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting and adverse opinion on the effectiveness of internal control over financial reporting because of the existence of material weaknesses.

/s/ BDO SEIDMAN, LLP

Philadelphia, Pennsylvania
June 1, 2006

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HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES Consolidated Balance Sheets December 31, 2004 and 2005 (in thousands)

	2004	2005
	-----	-----
	(restated)	
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3 & 18)	\$ 8,813	\$
Short term investments (Note 3 & 6)	7,924	1
Inventories (Note 4)	2,148	
Accounts and other receivables (Note 3)	139	
Prepaid expenses and other current assets	266	
	-----	-----
Total current assets	19,290	1
	-----	-----
Property and equipment, net (Note 3)	3,303	
Patent and trademark rights, net (Note 3)	908	
Investment (Note 3)	35	

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Construction in progress (Note 3)	--	
Deferred financing costs (Note 3)	440	
Advance receivable (Note 8)	1,300	
Other assets	17	
	-----	-----
Total assets	\$ 25,293	\$ 25,293
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 526	\$ 526
Accrued expenses (Note 7)	1,012	
Current portion of long-term debt (Notes 3, 8 & 20)	3,818	
	-----	-----
Total current liabilities	5,356	
	-----	-----
Long-term debt-net of current portion (Notes 3, 8 & 20)	494	
Commitments and contingencies (Notes 11, 13, 14, 16 and 20)		
Stockholders' equity (Notes 9 and 20):		
Preferred stock, par value \$0.01 per share, authorized 5,000,000; issued and outstanding; none	--	
Common stock, par value \$0.001 per share, authorized 100,000,000 shares; issued and outstanding 49,631,766 and 56,264,155, respectively	50	
Additional paid-in capital	154,609	154,609
Accumulated other comprehensive loss	(10)	
Accumulated deficit	(135,206)	(135,206)
	-----	-----
Total stockholders' equity	19,443	19,443
	-----	-----
Total liabilities and stockholders' equity	\$ 25,293	\$ 25,293
	=====	=====

See accompanying notes to consolidated financial statements.

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HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(in thousands, except share and per share data)

	Years ended December 31,		
	2003	2004	2005
	(restated)	(restated)	
Revenues:			
Sales of product net	\$ 509	\$ 1,050	\$ 910
Clinical treatment programs	148	179	173
	-----	-----	-----
Total Revenues:	657	1,229	1,083
Costs and expenses:			
Production/cost of goods sold	502	2,112	391
Research and development	3,150	3,842	5,218
General and administrative	4,257	6,164	5,389
	-----	-----	-----

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Total costs and expenses	7,909	12,118	10,998
Write off of investments in unconsolidated affiliates (Note 3c)	--	(373)	--
Interest and other income	80	49	590
Interest expense	(253)	(384)	(388)
Financing costs (Note 8)	(6,470)	(5,290)	(2,733)
	-----	-----	-----
Net loss	(13,895)	(16,887)	(12,446)
Deemed Dividend (Note 8)	(1,320)	(4,031)	--
	-----	-----	-----
Net loss applicable to common stockholders	\$ (15,215)	\$ (20,918)	\$ (12,446)
	=====	=====	=====
Basic and diluted loss per share	\$ (.43)	\$ (.46)	\$ (.24)
	=====	=====	=====
Weighted average shares outstanding	35,234,526	45,177,862	51,475,192
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
 Consolidated Statements of Changes in Stockholders' Equity and Comprehensive loss
 (in thousands except share data)

See accompanying notes to consolidated financial statements

	Common Stock Shares	Common .001 Par Value	Additional paid-in capital
	-----	-----	-----
Balance at December 31, 2002	32,650,178	33	107,155
Debt conversion and interest payments	4,334,916	4	6,741
Fair value ascribed to debenture beneficial conversion features and related warrants issued	--	--	7,119
Loan settlement costs	--	--	538
Deemed dividend upon issuance of inducement warrants	--	--	1,320
Warrants exercised	790,745	1	1,234
Common stock issued in connection with ISI acquisition	1,068,789	1	1,667
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	(491)
Treasury stock purchased	--	--	--
Treasury Stock retired	(339,543)	--	(4,272)
Conversion of minority interest of subsidiary into common stock	347,445	--	946
Stock issued in settlement of debt	215,047	--	474
Stock warrant compensation expense	--	--	237
Net comprehensive loss	--	--	--
	-----	-----	-----
Balance December 31, 2003 (restated)	39,067,577	39	122,668
Treasury shares sold	--	--	--
Shares issued for:			
Payment of accounts payable	127,243	--	382

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Original Issue Discount on convertible debt	158,104	--	465
Purchase of building	487,028	1	1,626
Conversion of debt	3,691,695	5	7,239
Interest on convertible debt	170,524	--	430
Private placement, net of issuance costs	3,617,306	3	6,981
Warrants exercised	2,268,586	2	5,091
Stock Issued with convertible debt	43,703	--	45
Fair value ascribed to debenture beneficial conversion features and related warrant issued	--	--	2,481
Deemed dividend upon issuance of inducement warrants	--	--	4,031
Loan settlement costs	--	--	149
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	491
Options and warrants issued for services	--	--	2,000
Revaluation of redemption obligation	--	--	530
Net comprehensive loss	--	--	--
Balance December 31, 2004 (restated)	49,631,766	50	154,609
Shares issued for:			
Payment of accounts payable	338,995	--	413
Conversion of debt	1,358,887	1	2,219
Warrants converted	5,000	--	9
Interest on convertible debt	255,741	409	--
Private placement, net of issuance costs	4,673,766	5	8,015
Options and warrants issued for services	--	--	391
Conversion price adjustment	--	--	140
Discount resulting from debt refinance	--	--	189
Net comprehensive loss	--	--	--
Balance December 31, 2005	56,264,155	\$ 56	\$166,394

	Accumulated deficit	Treasury stock shares	Treasury Stock
Balance at December 31, 2002	(99,073)	543,206	(4,520)
Debt conversion and interest payments	--	--	--
Fair value ascribed to debenture beneficial conversion features and related warrants issued	--	--	--
Loan settlement costs	--	--	--
Deemed dividend upon issuance of inducement warrants	(1,320)	--	--
Warrants exercised	--	--	--
Common stock issued in connection with ISI acquisition	--	--	--
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	--
Treasury stock purchased	--	43,000	(83)
Treasury Stock retired	--	(339,543)	4,144
Conversion of minority interest of subsidiary into common stock	--	--	--
Stock issued in settlement of debt	--	(246,220)	457
Stock warrant compensation expense	--	--	--
Net comprehensive loss	(13,895)	--	--
Balance December 31, 2003 (restated)	(114,288)	443	(2)
Treasury shares sold	--	(443)	2
Shares issued for:			
Payment of accounts payable	--	--	--

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Original Issue Discount on convertible debt	--	--	--
Purchase of building	--	--	--
Conversion of debt	--	--	--
Interest on convertible debt	--	--	--
Private placement, net of issuance costs	--	--	--
Warrants exercised	--	--	--
Stock Issued with convertible debt	--	--	--
Fair value ascribed to debenture beneficial conversion features and related warrant issued	--	--	--
Deemed dividend upon issuance of inducement warrants	(4,031)	--	--
Loan settlement costs	--	--	--
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	--
Options and warrants issued for services	--	--	--
Revaluation of redemption obligation	--	--	--
Net comprehensive loss	(16,887)	--	--
	-----	-----	-----
Balance December 31, 2004 (restated)	(135,206)	--	--
	=====	=====	=====
Shares issued for:			
Payment of accounts payable	--	--	--
Conversion of debt	--	--	--
Warrants converted	--	--	--
Interest on convertible debt	--	--	409
Private placement, net of issuance costs	--	--	--
Options and warrants issued for services	--	--	--
Conversion price adjustment	--	--	--
Discount resulting from debt refinance	--	--	--
Net comprehensive loss	(12,446)	--	--
	-----	-----	-----
Balance December 31, 2005	\$ (147,652)	--	\$ --
	=====	=====	=====

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HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(in thousands)

	Years ended December 31,		
	2003	2004	2005
	-----	-----	-----
Cash flows from operating activities:	(restated)	(restated)	
Net loss	\$ (13,895)	\$ (16,887)	\$ (12,446)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation of property and equipment	80	113	114
Amortization and write off of patent and trademark rights	127	327	281
Amortization of deferred financing costs	6,470	5,290	2,733
Write off of Investments in unconsolidated affiliates			

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	--	373	--
Stock option and warrant compensation and service expense	237	2,000	391
Inventory reserve	--	225	(125)
Interest on Convertible Debt	253	430	409
Changes in assets and liabilities:			
Inventory	(1,429)	523	505
Accounts and other receivables	1,225	143	43
Prepaid expenses and other current assets	(98)	(96)	124
Accounts payable	(551)	36	687
Accrued expenses	553	277	53
Other assets	6	6	--
	-----	-----	-----
Net cash used in operating activities	(7,022)	(7,240)	(7,231)
	-----	-----	-----
Cash flows from investing activities:			
Purchase of property and equipment, net	(19)	(150)	(175)
Additions to patent and trademark rights	(154)	(208)	(168)
Construction in progress	--	--	(827)
Maturity of short term investments	520	1,496	7,934
Purchase of short term investments	(1,496)	(7,934)	(12,548)
Deferred acquisition costs	(638)	--	--
	-----	-----	-----
Net cash used in Investing Activities	(1,787)	(6,796)	(5,784)
	-----	-----	-----

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(CONTINUED)
 HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows (Continued)
 (in thousands)

	Years ended December 31,		
	2003	2004	2005
	-----	-----	-----
Cash flows from financing activities:	(restated)	(restated)	
Proceeds from issuance of common stock, net	\$ --	\$ 6,984	\$ 8,020
Deferred financing costs	(835)	(542)	--
Proceeds from long-term borrowing	11,300	7,550	--
Advance receivable	(1,300)	--	--
Proceeds from exercise of stock warrants	1,235	5,093	9
Purchase of treasury stock	(83)	--	--
	-----	-----	-----

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Net cash provided by financing Activities	10,317	19,085	8,029
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	1,508	5,049	(4,986)
Cash and cash equivalents at beginning of year	2,256	3,764	8,813
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 3,764	\$ 8,813	\$ 3,827
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Issuance of common stock for accounts payable and accrued expenses	\$ 931	\$ 382	\$ 413
	=====	=====	=====
Issuance of Common Stock for Acquisition of ISI assets	\$ 1,667	\$ 1,626	\$ --
	=====	=====	=====
Stock Options and Warrants Issued for Services	\$ 237	\$ 2,000	\$ 391
	=====	=====	=====
Issuance of Common Stock for Debt Conversion, Interest Payments and debt payments	\$ 6,741	\$ 7,669	\$ 2,628
	=====	=====	=====
Common Stock Issued for Conversion of Minority Interest in Subsidiary	\$ 946	--	--
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Business

Hemispherx Biopharma, Inc. and subsidiaries (the Company) is a biopharmaceutical company engaged in the clinical development, manufacture, marketing and distribution of new drug entities based on natural immune system enhancing technologies for the treatment of viral and immune based chronic disorders. The Company was founded in the early 1970s, as a contract researcher for the National Institutes of Health. The Company has established a strong foundation of laboratory, pre-clinical, and clinical data with respect to the development of nucleic acids to enhance the natural antiviral defense system of the human body and to aid the development of therapeutic products for the treatment of chronic diseases. The Company owns a U.S. Food and Drug Administration ("FDA") approved GMP (good manufacturing practice) manufacturing facility in New Jersey.

The Company's flagship products include Ampligen(R) and Alferon N Injection(R). Ampligen(R) is an experimental drug undergoing clinical development for the treatment of: Myalgic Encephalomyelitis/Chronic Fatigue Syndrome ("ME/CFS" or "CFS"), and HIV. In August 2004, we completed a Phase III clinical trial ("AMP 516") treating over 230 ME/CFS patients with Ampligen(R)

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and are in the process of preparing a new drug application ("NDA") to be filed with the FDA.

In March 2004, the Company completed the step-by-step acquisition from Interferon Sciences, Inc. ("ISI") of ISI's commercial assets, Alferon N Injection(R) inventory, a worldwide license for the production, manufacture, use, marketing and sale of Alferon N Injection(R), as well as, a 43,000 square foot manufacturing facility in New Jersey and the acquisition of all intellectual property related to Alferon N Injection(R). Alferon N Injection(R) is a natural alpha interferon that has been approved by the FDA for commercial sale for the intra-lesional treatment of refractory or recurring external genital warts in patients 18 years of age or older. The acquisition was completed in Spring 2004 with the acquisition of all world wide commercial rights.

The consolidated financial statements include the financial statements of Hemispherx Biopharma, Inc. and its wholly-owned subsidiaries. The Company has three domestic subsidiaries BioPro Corp., BioAegean Corp. and Core BioTech Corp., all of which are incorporated in Delaware and are dormant. The Company's foreign subsidiaries include Hemispherx Biopharma Europe N.V./S.A. established in Belgium in 1998 and Hemispherx Biopharma Europe S. A. incorporated in Luxemburg in 2002, which have limited or no activity. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Restatements

- (a) Based on SEC guidance presented at the 2005 annual AICPA National Conference on current SEC and PCAOB developments, the Company re-evaluated its accounting for its March 2003, July 2003, October 2003, January 2004 and July 2004 Debentures (collectively, "the Debentures") to determine whether the embedded conversion options required bifurcation and fair value accounting in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock". The Company concluded that bifurcation was not required and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") should have been applied. The Company did initially apply EITF 00-27, however as part of performing an analysis on the guidelines set forth in EITF 00-27 it was determined that the initial accounting treatment for the Debentures and conversion price resets that was originally applied and reflected in the financial statements included in the Company's Annual Reports on Form 10-K for the years ended December 31, 2004 and 2003, and in the Company's Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 were not correctly applied and that, therefore, a restatement of the Company's financial statements for the periods referenced above was required. To properly account for the initial calculation of the discount and the conversion price resets triggered upon the issuance of the issuance of the October 2003 Debenture and the August 2004 Private Placement (See Notes 8 & 9 below for more details on these resets), it was determined, under guidance from EITF 00-27 that the debt discount should be restated for the Debentures. The total impact of this restatement on the Company's statement of operations was to decrease the net loss applicable to common stockholders for the year ended December 31, 2004 by \$2,959,000 or \$0.07 per share, and to increase the net loss applicable to common stockholders by \$287,000 or \$0.01 per share for the year ended December 31, 2003.

- (b) The estimation of fair value ascribed to and the accounting treatment of the investment banking fees paid to Cardinal Capital, LLC ("Cardinal") in connection with the Debenture issuances, at inception, was inaccurately reflected in the financial statements included in the Company's Annual Report on Form 10-K for the years ended December 31, 2004 and 2003, and the Company's Quarterly reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 and as a result a restatement of the Company's financial statements for the periods referenced above was required. In connection with the initial recording of the Debentures mentioned above, it was determined that the fair value of the warrants issued as investment banking fees paid to Cardinal, be accounted for as a discount to the Debentures. These investment banking fees should have been capitalized as deferred financing costs and amortized over the life of the Debentures or charged to earnings on the earlier conversion thereof. In addition, the initial calculation of the fair
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