HEMISPHERX BIOPHARMA INC
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2018

Commission File Number: 1-13441

HEMISPHERX BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

Delaware	52-0845822
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2117 SW Highway 484, Ocala FL 34473

(Address of principal executive offices) (Zip Code)

(407) 839-0095

(Registrant's telephone number, including area code)

860 N. Orange Avenue, Suite B, Orlando, FL 32801

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

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

[ ] Large accelerated filer [ ] Accelerated filer
[ ] Non-accelerated filer [X] Smaller reporting company
[ ] Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

47,246,809 shares of common stock were outstanding as of August 7, 2018.

PART I- FINANCIAL INFORMATION

ITEM 1: **Financial Statements**

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except for share and per share amounts)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,568	$ 1,412
Marketable securities	674	695
Accounts receivable	35	24
Assets held for sale	-	764
Prepaid expenses and other current assets	1,008	610
Total current assets	5,285	3,505
Property and equipment, net	8,142	8,586
Patent and trademark rights, net	886	858
Other assets	1,372	1,258
Total assets	$ 15,685	$ 14,207
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 689	$ 741
Accrued expenses	1,193	1,966
Current portion of financing obligation	195	-
Total current liabilities	2,077	2,707
Long-term liabilities:		
Note Payable	-	1,835
Financing obligation arising from sale leaseback transaction (Note 13)	2,417	-
Redeemable warrants	2,095	962
Commitments and contingencies		

Stockholders' equity:		
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 350,000,000 shares; issued and outstanding 46,817,965 and 32,884,786, respectively	47	33
Additional paid-in capital	322,946	317,419
Accumulated other comprehensive (loss) income	(9)	11
Accumulated deficit	(313,888)	(308,760)
Total stockholders' equity	9,096	8,703
Total liabilities and stockholders' equity	$ 15,685	$ 14,207

See accompanying notes to consolidated financial statements.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss

(in thousands, except share and per share data)

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues:				
Clinical treatment programs –United States	$11	$74	$24	$97
Clinical treatment programs - Europe	22	139	65	200
Total revenues	33	213	89	297
Costs and expenses:				
Production costs	186	218	394	488
Research and development	1,341	1,106	2,196	2,497
General and administrative	1,733	1,619	3,296	3,283
Total costs and expenses	3,260	2,943	5,886	6,268
Operating loss	(3,227)	(2,730)	(5,797)	(5,971)
Interest and other income	51	21	55	47
Interest expense and other finance costs	(55)	(19)	(194)	(19)
Settlement with vendor	474	—	474	—
Redeemable warrants valuation adjustment	362	529	131	923
Gain on sale of building	—	—	223	—
Gain on sale of short term marketable securities	(20)	6	(20)	6
Net loss	(2,415)	(2,193)	(5,128)	(5,014)
Other comprehensive income (loss):				
Reclassification adjustments for loss on sales of short term marketable securities included in net loss	—	(6)	—	(6)
Unrealized loss on marketable securities	(33)	18	(20)	29
Net comprehensive loss	$(2,448)	$(2,181)	$(5,148)	$(4,991)
Basic and diluted loss per share	$(0.05)	$(0.08)	$(0.13)	$(0.19)
Weighted average shares outstanding, basic and diluted	44,673,538	27,306,321	40,494,679	26,329,123

See accompanying notes to consolidated financial statements.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

For the Six Months Ended June 30, 2018

(in thousands except share data)

(Unaudited)

	Common Stock Shares	Common Stock $0.001 Par Value	Additional Paid-In Capital	Accumulated Other Compre-hensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2017	32,884,786	$ 33	$ 317,419	$ 11	$ (308,760)	$ 8,703
Equity-based compensation	1,040,157	1	611	—	—	612
Warrants issued for building sale leaseback	—	—	1,149	—	—	1,149
Redeemable warrants	—	—	221	—	—	221
Common stock issuance, net of costs	12,247,113	12	3,267	—	—	3,279
Common stock issued to settle accounts payable	645,909	1	279	—	—	280
Net comprehensive loss	—	—	—	(20)	(5,128)	(5,148)
Balance at June 30, 2018	46,817,965	$ 47	$ 322,946	$ (9)	$ (313,888)	$ 9,096

See accompanying notes to consolidated financial statements.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2018 and 2017

(in thousands)

(Unaudited)

	2018	2017
Cash flows from operating activities:		
Net loss	$ (5,128)	$ (5,014)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	444	504
Redeemable warrants valuation adjustment	(131)	(923)
Amortization of patent and trademark rights	30	17
Equity-based compensation	612	101
Realized gain (loss) on sale of marketable securities	-	(6)
Gain on sale of building	(223)	-
Amortization of finance costs and debt settlement expenses	168	-
Change in assets and liabilities:		
Accounts receivable	(11)	(98)
Prepaid expenses and other current assets	(398)	(298)
Accounts payable	126	85
Accrued expenses	(734)	331
Net cash used in operating activities	(5,245)	(5,301)

Cash flows from investing activities:		
Sale of marketable securities	-	1,500
Purchase of property, equipment and construction in progress	-	(3)
Proceeds from sale of building	1,050	-
Purchase of patent and trademark rights	(57)	(14)
Net cash provided by investing activities	993	1,483
Cash flows from financing activities:		
Proceeds from lease financing obligation	4,080	—
Settlement costs of lease financing obligation	(268)	—
Payment of financing obligation payment	(97)	—
Debt issuance costs	—	(89)
Proceeds from note payable	—	606
Payoff of mortgage note payable	(1,957)	—
Security deposits paid	(114)	—
Proceeds from sale of stock, net of issuance costs	4,764	2,115
Net cash provided by financing activities	6,408	2,632
Net increase (decrease) in cash and cash equivalents	2,156	(1,186)
Cash and cash equivalents at beginning of period	1,412	2,408
Cash and cash equivalents at end of period	$ 3,568	$ 1,222
Supplemental disclosures of non-cash investing and financing cash flow information:		

Unrealized gain (loss) on marketable securities	$	(20)	$	29
Stock issued to settle accounts payable	$	280	$	106

See accompanying notes to consolidated financial statements.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Business and Basis of Presentation

Hemispherx Biopharma, Inc. and its subsidiaries (collectively, "Hemispherx", "Company", "we" or "us") are an immuno-pharma Research and Development ("R&D") and emerging commercial growth company focused on unmet medical needs in immunology, especially immuno-oncology. We have established a strong foundation of laboratory, pre-clinical and clinical data with respect to the development of natural interferon and 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 certain chronic diseases.

Our flagship products include Ampligen®, an experimental therapeutic, and Alferon N Injection®. Ampligen represents an experimental Ribonucleic Acid ("RNA") being developed for globally important viral diseases and disorders of the immune system. Hemispherx' platform technology includes components for the potential treatment of various severely debilitating and life-threatening diseases. Alferon N Injection is approved for a category of Sexually Transmitted Disease ("STD") infection.

In August 2016, we received approval of our NDA from Administracion Nacional de Medicamentos, Alimentos y Tecnologia Medica ("ANMAT") for commercial sale of Ampligen in the Argentine Republic for the treatment of severe CFS. The product will be marketed by GP Pharm, our commercial partner in Latin America.

Hemispherx is also committed to a focused business plan oriented toward finding senior co-development partners with the capital and expertise needed to commercialize the many potential therapeutic aspects of our drug, Ampligen, and our approved drug, Alferon N Injection. Lastly, the Company plans to access the public equity markets to raise further capital.

In the opinion of Management, all adjustments necessary for a fair presentation of such consolidated financial statements have been included. Such adjustments consist of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The interim consolidated financial statements and notes thereto are presented as permitted by the Securities and Exchange Commission ("SEC"), and do not contain certain information which will be included in the Company's annual

consolidated financial statements and notes thereto.

These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2017 and 2016, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Note 2: Net Loss Per Share

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares, consisting of stock options and warrants which amounted to 20,403,268 and 18,503,057 shares for the six months ended June 30, 2018 and 2017, respectively, are excluded from the calculation of diluted net loss per share since their effect is anti-dilutive.

Note 3: Equity-Based Compensation

The fair value of each option and equity warrant award is estimated on the date of grant using a Black-Scholes-Merton option pricing valuation model. Expected volatility is based on the historical volatility of the price of the Company's stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option and equity warrant. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. There were 2,933,627 and 669,619 options granted in the six months ended June 30, 2018 and June 30, 2017, respectively.

Stock option for employees' activity during the six months ended June 30, 2018 is as follows:

Stock option activity for employees:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding January 1, 2018	1,203,918	$ 5.91	6.89	$ —
Granted	2,933,627	0.35	—	—
Forfeited	(120,000)	5.28		
Expired	(15,833)	12.00	—	—
Outstanding June 30, 2018	4,001,712	$ 1.83	9.08	$ —
Vested and expected to vest June 30, 2018	4,001,712	$ 1.83	9.08	$ —
Exercisable June 30, 2018	1,043,054	$ 5.18	6.58	$ —

Unvested stock option activity for employees:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Unvested January 1, 2018	366,149	$ 0.48	9.62	$ —
Granted	2,933,627	0.35	—	—
Vested	(341,118)	0.40	—	—
Unvested June 30, 2018	2,958,658	$ 0.36	9.69	$ —

Stock option activity for non-employees:

	Number of Options	Weighted Average Exercise	Weighted Average Remaining Contractual	Aggregate Intrinsic Value

		Price	Term (Years)		
Outstanding January 1, 2018	834,876	$ 2.70	6.69	$	—
Granted	1,156,152	0.34	—		—
Forfeited	(93,854)	6.26	—		—
Expired	(14,250)	32.77	—		—
Outstanding June 30, 2018	1,882,924	$ 0.85	8.61	$	—
Vested and expected to vest June 30, 2018	1,882,924	$ 0.85	8.61	$	—
Exercisable June 30, 2018	456,529	$ 2.71	6.25	$	—

Unvested stock option activity for non-employees:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Unvested January 1, 2018	464,659	$ 0.36	7.84	$ —
Granted	1,156,152	0.34	—	—
Vested	(194,416)	0.39	—	—
Unvested June 30, 2018	1,426,395	$ 0.34	9.20	$ —

Stock-based compensation expense was approximately $612,000 and $101,000 for the six months ended June 30, 2018 and 2017 resulting in an increase in general and administrative expenses and loss per share of $0.01 and $0.00, respectively.

As of June 30, 2018, and 2017, respectively, there was $1,278,000 and $405,000 of unrecognized equity-based compensation cost related to options granted under the Equity Incentive Plan.

Note 4: Inventories

The Company uses the lower of first-in, first-out (“FIFO”) cost or net realizable value method of accounting for inventory.

Commercial sales of Alferon in the US will not resume until new batches of commercial filled and finished product are produced and released by the FDA. While the facility is approved by the FDA under the BLA for Alferon, this status will need to be reaffirmed by an FDA pre-approval inspection. We will also need the FDA’s approval to release commercial product once we have submitted satisfactory stability and quality release data. Currently, the manufacturing process is on hold and there is no definitive timetable to have the facility back online. We estimate we will need approximately $10,000,000 to commence the manufacturing process. Due to the Company extending the timeline of Alferon production to an excess of one year, we reclassified Alferon work-in-process inventory of $1,115,000 to other assets within our balance sheet as of June 30, 2018 and due to the high cost estimates to bring the facility back online. The above estimated cost includes additional funds needed for the revalidation process in our facility to initiate commercial manufacturing, thereby readying ourselves for an FDA Pre-Approval Inspection. If we are unable to gain the necessary FDA approvals related to the manufacturing process and/or final product of new

Alferon inventory, our operations most likely will be materially and/or adversely affected. In light of these contingencies, there can be no assurances that the approved Alferon N Injection product will be returned to production on a timely basis, if at all, or that if and when it is again made commercially available, it will return to prior sales levels.

The Alferon work in process is currently compliant with our internal protocols, is stored in a controlled state, and we regularly monitor the stability of the product. All of these factors contribute to the potential sale of the Alferon work in process, after validation lots have been produced and including a successful pre-approval inspection.

Note 5: Marketable Securities

Marketable securities consist of mutual funds. For the six months ended June 30, 2018 and 2017, it was determined that none of the marketable securities had other-than-temporary impairments. On June 30, 2018 and December 31, 2017, all securities were classified as available for sale investments and were measured as Level 1 instruments of the fair value measurements standard.

Securities classified as available for sale consisted of:

June 30, 2018

(in thousands)

Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Short-Term Investments	Long Term Investments
Mutual Funds	$ 683	$ -	$ (9)	$ 674	$ 674	$ —
Totals	$ 683	$ -	$ (9)	$ 674	$ 674	$ —

December 31, 2017

(in thousands)

Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Short-Term Investments	Long Term Investments
Mutual Funds	$ 684	$ 11	$ —	$ 695	$ 695	$ —
Totals	$ 684	$ 11	$ —	$ 695	$ 695	$ —

Unrealized losses on investments

As of June 30, 2018, there was one investment of $674,000 in a loss position of $(9,000) for less than 12 months.

Note 6: Accrued Expenses

Accrued expenses consist of the following:

(in thousands)

	June 30, 2018	December 31, 2017
Compensation	$522	$ 569
Professional fees	425	506
Clinical trial expenses	33	310
Other expenses	213	581
	$1,193	$ 1,966

Note 7: Property and Equipment

	(in thousands)	
	June 30, 2018	December 31, 2017
Land, buildings and improvements	$10,547	$ 10,547
Furniture, fixtures, and equipment	4,994	5,625
Total property and equipment	15,541	16,172
Less: accumulated depreciation and amortization	(7,399)	(7,586)
Property and equipment, net	$8,142	$ 8,586

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three to thirty-nine years.

On March 16, 2018, the Company sold land and a building for $4,080,000 and concurrently entered into an agreement to lease the property back for ten years. The lease payments are initially $408,000 per year for two years through March 31, 2020 and will escalate in subsequent years. (See Note 13 – Financing Obligation Arising from Sale Leaseback Transaction for more details on the sale leaseback of the property and equipment).

In February 2018, the Company sold the building located adjacent to its manufacturing facility located at 5 Jules Lane, New Brunswick, New Jersey to an unaffiliated party. The purchase price was $1,050,000 and the Company netted $963,000 in cash.

Note 8: Stockholders' Equity

(a) Preferred Stock

The Company is authorized to issue 5,000,000 shares of $0.01 par value preferred stock with such designations, rights and preferences as may be determined by the Board of Directors. There were no Preferred Shares issued and outstanding as of June 30, 2018 and December 31, 2017. Of our authorized preferred stock, 250,000 shares have been designated as Series A Junior Participating Preferred Stock.

(b) Common Stock

The Company is authorized to issue 350,000,000 shares of $0.001 par value common stock with specific limitations and restrictions on the usage of 75,000,000. In September 2015, the Company's stockholders removed the limitations and restrictions on 67,000,000 shares. The Company's stockholders approved up to an additional 60,000,000 shares for use in capital raising transactions and 7,000,000 shares for use in the Equity Plan of 2009. In August 2016, the Company effected a 12 to 1 reverse stock split of the outstanding shares, in order to become compliant with the NYSE regulations. This did not affect the number of authorized shares.

On September 6, 2016, we entered into a Securities Purchase Agreement (the "September Purchase Agreement") with certain investors for the sale by us of 3,333,334 shares of our Common Stock registered under our S-3 shelf registration statement on at a purchase price of $1.50 per share. Concurrently with the sale of the common stock, pursuant to the September Purchase Agreement, we also sold unregistered warrants to purchase 2,500,000 shares of common stock for aggregate gross proceeds of $5,000,000. Subject to certain ownership limitations, the warrants are initially exercisable six-month after issuance at an exercise price equal to $2.00 per share of common stock, subject to adjustments as provided under the terms of the warrants. The warrants are exercisable for five years from the initial

exercise date. Pursuant to an engagement agreement, we paid our placement agent an aggregate fee equal to 7% of the gross proceeds received by us from the sale of the securities in the offering and granted to our placement agent or its designees warrants to purchase up to 5% of the aggregate number of shares sold in the transactions amounting to 166,667 unregistered warrants. The placement agent warrants have substantially the same terms as the investor warrants, except that the placement agent warrants will expire on September 1, 2021 and have an exercise price equal to $1.875 per share of common stock.

On February 1, 2017, we entered into Securities Purchase Agreements (each, a “February Purchase Agreement”) with certain investors for the sale by us of 1,818,185 shares of our common stock at a purchase price of $0.55 per share. Concurrently with the sale of the common stock, pursuant to the February Purchase Agreement, we also sold unregistered warrants to purchase 1,363,639 shares of common stock for aggregate gross proceeds of approximately $1,000,000. The warrants have an exercise price of $0.75 per share, are exercisable six months after issuance, and will expire five years from the initial exercise date. Pursuant to an engagement agreement, we paid our placement agent an aggregate fee equal to 7% of the gross proceeds received by us from the sale of the securities in the offering and granted to our placement agent or its designees warrants to purchase up to 5% of the aggregate number of shares sold in the transactions amounting to 90,910 unregistered warrants. The placement agent warrants have substantially the same terms as the investor warrants, except that the placement agent warrants will expire on February 1, 2022 and have an exercise price equal to $0.6875 per share of common stock. The Company subsequently registered the shares issuable upon exercise of the warrants on form S-1.

The common stock issued in the above referenced September 6, 2016 and February 1, 2017 offerings were offered and sold by the Company pursuant to an effective shelf registration statement on Form S-3, which was initially filed with the SEC in June 2015 and subsequently declared effective on August 4, 2015 (Registration No. 333-205228) and the base prospectus dated as of August 4, 2015 contained therein. The Company filed a prospectus supplements related to these offerings with the SEC on September 1, 2016 and February 3, 2017, respectively, in connection with the sale of the common stock. The common stock issued pursuant to the above June 1, 2017 exercise of warrants were issued pursuant to an effective registration statement on Form S-1, which was initially filed with the SEC in May 2017 as subsequently amended and declared effective on May 23, 2017 (Registration No. 333-217671) and the prospectus supplement filed with the SEC on May 23, 2017

The Board of Directors approved up to $500,000 for all directors, officers and employees to buy company shares from the company at the market price. As of June 30, 2018, the Company issued 460,020 shares of its common stock at prices between $0.32 and $0.69 per share directly to executives and employees, for $227,240 in a series of private transactions pursuant to stock purchase agreements.

On June 1, 2017, the exercise price of Warrants issued in September 2016 was changed to $0.50. As a result, the warrant holders exercised these options and purchased 2,370,000 shares of Company common stock. The Company realized net proceeds of $1,055,000 from this exercise. In conjunction with the foregoing, the Company also issued 2,370,000 series A warrants with an exercise price of $0.60 per share, an initial exercise date of December 1, 2017 and expiring March 6, 2022 (the “Series A Warrants”) and 7,584,000 series B warrants with exercise price of $0.60, an initial exercise date December 1, 2017 per share and expiring March 1, 2018 (the “Series B Warrants” and, along with the Series A Warrants, the “Warrants”). The foregoing transactions are hereinafter referred to as the “Exchange Transaction”.

In addition, on July 10, 2017, the warrant holders exercised the remaining 130,000 warrants issued in September 2016 and purchased 130,000 shares of common stock. The Company realized net proceeds of $65,000 from this exercise. In conjunction with the foregoing the Company issued 130,000 Series A Warrants and 416,000 Series B Warrants (with an exercise price of $0.60 and an initial exercise date January 10, 2018 on the three-month anniversary of the of the initial exercise date).

The 2,800,000 warrants with an expiration date of March 1, 2018 and an exercise price on $0.45 were exercised in January and February 2018. The Company realized proceeds of $1,260,000 from these exercises.

Pursuant to an engagement agreement, the Company paid its placement agent an aggregate fee equal to 7% and 10.5%, respectively, of the gross proceeds received by the Company from the sale of the securities in the offerings and granted to its placement agent or its designees warrants to purchase up to 5% of the aggregate number of shares sold in the transactions amounting to 166,667 and 107,759, respectively, unregistered warrants. The placement agent warrants have substantially the same terms as the investor warrants, except that the 166,667 placement agent warrants issued in September 2017 will expire September 1, 2021 and have an exercise price equal to $1.875 per share of common stock and the 107,759 placement agent warrants issued in June 2017 will expire June 1, 2022 and have an exercise price of $0.625.

On August 23, 2017, the Holders of the Series A Warrants and Series B Warrants exchanged all of their Warrants for new warrants (respectively, the “Series A Exchange Warrants” and the “Series B Exchange Warrants” and, collectively, the “Exchange Warrants”) identical to the Warrants except as follows: The exercise price of both Exchange Warrants is $0.45 per share, subject to adjustment therein, and the number of Series B Exchange Warrants issued was proportionately reduced so that all Exchange Warrants in the Exchange Transaction do not exceed 19.9% of the number of the Company’s issued and outstanding shares of Common Stock as of May 31, 2017, the date of the

Exchange Transaction offer letters. The issuance of the Exchange Warrants by the Company and the shares of Common Stock issuable upon exercise of the Exchange Warrants is exempt from registration pursuant to Sections 3(a)(9) and 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act").

On July 23, 2012, the Company entered into an equity distribution agreement with Maxim (the "EDA") pursuant to which it could sell up to $75,000,000 worth of our shares of common stock from time to time through Maxim, as sales agent. Under the EDA, Maxim is entitled to a fixed commission rate of 4.0% of the gross sales price of shares sold under the EDA, up to aggregate gross proceeds of $10,000,000, and thereafter, at a fixed commission rate of 3.0% of the gross sales price of shares sold under the EDA. The Company has no obligation to sell any of the shares and may at any time suspend offers under the EDA or terminate the EDA. Sales under the EDA were suspended on April 20, 2018 for a period of 60 days.

On November 27, 2017, the Company reactivated the EDA. During the Six months ended June 30, 2018, the Company sold an aggregate of 1,465,113 shares under the EDA for proceeds of $663,000 net of $20,000 in commissions. Pursuant to a prospectus supplement dated February 7, 2018, the Company was able to sell up to 6,549,157 of its common stock (inclusive of shares already sold under the prospectus supplement) under the EDA. The actual number of shares, that the Company can sell, and the proceeds to be received there from are dependent upon the market price of its common stock.

Effective with the semi-monthly period ended April 30, 2017, all of the members of the Company's Board of Directors agreed to accept 100% of their directors' fees in the form of options to purchase Company Common Stock. This program was terminated as of August 31, 2017. In this regard, options to purchase 206,082 shares of Company common stock were issued with exercise prices ranging from $0.36 to $0.67, a holding period of 10 years and vesting over three years. In addition, commencing with the semi-monthly period ended June 15, 2017, certain officers of the Company and certain other employees of the Company, agreed to accept 20% of their salary in options to purchase Company Common Stock. This program was also terminated as of August 31, 2017. In this regard, options to purchase 214,866 shares of Company common stock were issued with exercise prices ranging from $0.36 to $0.67, a holding period of 10 years and vesting over three years.

As part of the cash conservation program adopted on August 28, 2017, starting with the month of September 2017, the directors agreed to defer 100% of their fees until cash is available. In consideration of this deferral, 226,023 options were issued to each of the two independent directors in February 2018 with an exercise price of $0.37 for a period of 10 years with a vesting period of 3 years, and 152,053 options were issued to each of the two independent directors in May 2018 with an exercise price of $0.30 for a period of 10 years with a vesting period of 3 years. This program was suspended as of July 15, 2018 and all remaining deferred fees were paid in July 2018.

Also as part of the cash conservation program adopted on August 28, 2017, starting with the month of September 2017, certain officers agreed to defer 40% of their salaries until cash is available. In consideration of this deferral, 884,459 options were issued to these officers in February 2018 with an exercise price of $0.37 for a period of 10 years with a vesting period of 3 years, and 599,168 options were issued to these officers in May 2018 with an exercise price of $0.30 for a period of 10 years with a vesting period of 3 years. This program was suspended as of July 15, 2018 and all remaining deferred salaries were paid on July 2018.

Also as part of the cash conservation program adopted on August 28, 2017, all employees agreed to be paid 50% of their salaries in the form of unrestricted common stock of the Company. Starting with the month of September 2017, the salaries of all the employees of the Company were paid 50% in the form of unrestricted common stock of the Company. The total number of shares issued as of June 15, 2018 to the employees under this program was 2,010,534 shares at stock prices ranging from $0.31 to $0.55 per share. This program was suspended by the Board of Directors on June 30, 2018.

On March 24, 2018, the Company sold 1,250,000 shares of common stock. The Company realized net proceeds of $475,000 from this stock offering.

On April 20, 2018, Hemispherx, Biopharma, Inc. (the “Company”) entered into Securities Purchase Agreements (the “Purchase Agreements”) with certain investors (the “Investors”) for the sale by the Company of an aggregate of 6,600,000 shares (the “Common Shares”) of the Company’s common stock, par value $0.001 per share (the “Common Stock”), at a purchase price of $0.39 per share. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreements the Company also sold 6,600,000 warrants, 50% of which are Class A Warrants and 50% of which are Class B Warrants (collectively, the “Warrants”). The Company will receive gross proceeds from the sale of the Warrants solely to the extent such Warrants are exercised for cash. Both classes of Warrants will not be exercisable until six months after issuance and will have an exercise price of $0.39 per share, subject to adjustments as provided under the terms of the Warrants. The Class A Warrants and Class B Warrants will expire, respectively, two and five years after the date on which they are first exercisable. The closing of the sales of these securities under the Purchase Agreements took place on April 24, 2018.

The Company received net proceeds from the transactions of $2,343,820 after deducting certain fees due to the placement agent and the Company’s transaction expenses. The net proceeds received by the Company from the

transactions will be used for the production of Ampligen, to improve operations, and for working capital and general corporate purposes.

As of June 30, 2018, and December 31, 2017, there were 46,817,965 and 32,884,786 shares outstanding, respectively.

The Equity Incentive Plan of 2009, effective June 24, 2009, as amended, authorizes the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and other stock awards. A maximum of 22,000,000 shares of common stock is reserved for potential issuance pursuant to awards under the Equity Incentive Plan of 2009. Unless sooner terminated, the Equity Incentive Plan of 2009 will continue in effect for a period of 10 years from its effective date. For the six months ended June 30, 2018, there were 2,933,627 options granted by the Company.

Note 9: **Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Note 10: Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. ASU 2014-09 will eliminate transaction and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principal-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. ASU 2014-09 also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017, and early adoption is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. As of June 30, 2018, we have not identified any accounting changes that would materially impact the amount of reported revenues with respect to our product revenues. The Company applied the Full Retrospective Application to implement the new revenue recognition standard ASC 606. The Company, based on the nature of its Ampligen sales under its cost recovery programs, determined that there were no material differences between the new accounting standard and legacy GAAP and that difficulties will not arise for any "open" contract issues with its customers during the transition period. The Company also determined that the adoption of this standard had little or no impact to the Company's opening balance of retained earnings.

In January 2016, the FASB has issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance is intended to improve the recognition and measurement of financial instruments. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. The Company believes that the adoption of the guidance will have no material impact on the Company's financial statement presentation or disclosures.

In February 2016, the FASB issued ASU 2016-02 - *Leases,* which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018, and early adoption of is permitted as of the standard's issuance date. ASU 2016-02 allows a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the effects the adoption of this guidance will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The new guidance is intended to address the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments apply to all

entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company believes that the adoption of the guidance will not have a material impact on the Company's financial statement presentation or disclosures.

In 2018, the FASB also issued Accounting Standards Updates ("ASU") 2018-01 through 2018-11. These updates did not have a significant impact on the financial statements.

Note 11: Note Payable

In May 2017, the Company entered into a mortgage and note payable agreement with a bridge funding company to obtain a two-year funding line of up to $4,000,000 secured by the property and assets located at 783 Jersey Avenue, New Brunswick, New Jersey. The Company borrowed $1,900,000 of the line in monthly advances including accrued interest as of December 31, 2017. The Company was able to request future advances in excess of $2,000,000 at the lender's discretion and be payable in full upon maturity. The Company paid interest on this note at a fixed rate of 12% per annum for the first 18 months and change to a rate equal to 800 basis points above the prime rate of interest during the remainder of the term; however, the interest rate was not to be less than 12% for the entire term. The note was interest only and payable monthly through the maturity. The Company was permitted to prepay the line without penalty commencing after six months. The balance on the note at December 31, 2017 was $1,835,000 ($1,900,000 less unamortized deferred finance costs of $65,000). The note was paid off on March 16, 2018 in conjunction with the sale leaseback of the Company's above property and assets at an amount of $1,956,803, which included all accrued interest and fees (See also Note 7 – Property and Equipment).

Note 12: Fair Value

The Company is required under GAAP to disclose information about the fair value of all the Company's financial instruments, whether or not these instruments are measured at fair value on the Company's consolidated balance sheets.

The Company estimates that the fair values of cash and cash equivalents, other assets, accounts payable and accrued expenses approximate their carrying values due to the short-term maturities of these items. The Company also has certain warrants with a cash settlement feature in the unlikely occurrence of a Fundamental Transaction, namely (1) a merger or consolidation with another person; (2) sale of substantially all of its assets; (3) holders of common stock sell 50% or more of outstanding shares; (4) the Company effects an exchange of all its securities for other securities, cash or property, and (5) the Company effects a stock purchase agreement or business combination for more than 50% of outstanding shares. The fair value of the redeemable warrants ("Warrants") related to the Company's August 2016, February 2017, June 2017, August 2017 and April 2018 common stock and warrant issuance, are calculated using a Monte Carlo Simulation. While the Monte Carlo Simulation is one of a number of possible pricing models, the Company has determined it to be industry accepted and fairly presented the fair value of the Warrants. As an additional factor to determine the fair value of the Put's liability, the occurrence probability of a Fundamental Transaction event was factored into the valuation.

The Company recomputes the fair value of the Warrants at the issuance date and the end of each quarterly reporting period. Such value computation includes subjective input assumptions that are consistently applied each period. If the Company were to alter its assumptions or the numbers input based on such assumptions, the resulting fair value could be materially different.

The Company utilized the following assumptions to estimate the fair value of the August 2016 Warrants:

	June 30, 2018	December 31, 2017
Underlying price per share	$0.32	$ 0.35
Exercise price per share	$1.88	$ 1.88
Risk-free interest rate	2.64%	2.05 %
Expected holding period	3.18	3.70
Expected volatility	70 %	65 %
Expected dividend yield	-	-

The Company utilized the following assumptions to estimate the fair value of the February 2017 Warrants:

	June 30, 2018	December 31, 2017
Underlying price per share	$0.32	$0.35
Exercise price per share	$0.69-0.75	$0.69-$0.75
Risk-free interest rate	2.69 %	2.10 %
Expected holding period	4.09-4.10	4.10

Expected volatility	70	%	65	%
Expected dividend yield	-		-	

The Company utilized the following assumptions to estimate the fair value of the June 2017 Warrants:

	June 30, 2018		December 31, 2017	
Underlying price per share	$0.32		$ 0.35	
Exercise price per share	$0.63		$ 0.63	
Risk-free interest rate	2.68	%	2.14	%
Expected holding period	3.92		4.4	
Expected volatility	70	%	65	%
Expected dividend yield	-		-	

The Company utilized the following assumptions to estimate the fair value of the August 2017 Warrants:

	June 30, 2018	December 31, 2017
Underlying price per share	$0.32	$0.35
Exercise price per share	$0.45	$0.45
Risk-free interest rate	2.66%	1.33%-2.11%
Expected holding period	3.68	0.2-4.2
Expected volatility	70 %	65 %
Expected dividend yield	-	-

The Company utilized the following assumptions to estimate the fair value of the April 2018 Warrants:

	June 30, 2018	April 24, 2018
Underlying price per share	$0.32	$0.34
Exercise price per share	$0.39	$0.39
Risk-free interest rate	2.56%-2.74%	2.56%-2.86%
Expected holding period	2.32-5.32	2.5-5.5
Expected volatility	70 %	70 %
Expected dividend yield	-	-

The significant assumptions using the Monte Carlo Simulation approach for valuation of the Warrants are:

(i) *Risk-Free Interest Rate*. The risk-free interest rates for the Warrants are based on U.S. Treasury constant maturities for periods commensurate with the remaining expected holding periods of the warrants.

(ii) *Expected Holding Period*. The expected holding period represents the period of time that the Warrants are expected to be outstanding until they are exercised. The Company utilizes the remaining contractual term of the Warrants at each valuation date as the expected holding period.

(iii) *Expected Volatility*. Expected stock volatility is based on daily observations of the Company's historical stock values for a period commensurate with the remaining expected holding period on the last day of the period for which the computation is made.

(iv) *Expected Dividend Yield*. Expected dividend yield is based on the Company's anticipated dividend payments over the remaining expected holding period. As the Company has never issued dividends, the expected dividend yield is $0.00 and this assumption will be continued in future calculations unless the Company changes its dividend policy.

(v) *Expected Probability of a Fundamental Transaction.* The possibility of the occurrence of a Fundamental Transaction triggering a Put right is extremely remote. As discussed above, a Put right would only arise if a Fundamental Transaction 1) is an all cash transaction; (2) results in the Company going private; or (3) is a

transaction involving a person or entity not traded on a national securities exchange. The Company believes such an occurrence is highly unlikely because:

a. The Company only has one product that is FDA approved but which will not be available for commercial sales for 18 months at the earliest;
b. The company flagship product is approved in Argentina for Severely Debilitated CFS patients
c. The Company may have to perform additional clinical trials for FDA approval of its flagship product;
d. Industry and market conditions continue to include a global market recession, adding risk to any transaction;
e. Available capital for a potential buyer in a cash transaction continues to be limited;
f. The nature of a life science company is heavily dependent on future funding and high costs, including research & development;
g. The Company has minimal revenues streams which are insufficient to meet the funding needs for the cost of operations or construction at their manufacturing facility; and
h. The Company's Rights Agreement and Executive Agreements make it less attractive to a potential buyer.

With the above factors utilized in analysis of the likelihood of the Put's potential Liability, the Company estimated the range of probabilities related to a Put right being triggered as:

Range of Probability	Probability	
Low	0.5	%
Medium	1.0	%
High	5.0	%

The Monte Carlo Simulation has incorporated a 5.0% probability of a Fundamental Transaction to date for the life of the securities.