

HEMISPHERX BIOPHARMA INC
Form 10-Q
May 10, 2007

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 March 31, 2007
Commission File Number: 0-27072

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 No.)

1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103
(Address of principal executive offices) (Zip Code)

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

Not Applicable
(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 o 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).
 Yes No

71,989,622 shares of common stock were issued and outstanding as of April 30, 2007.

PART I - FINANCIAL INFORMATION**ITEM 1: Financial Statements**

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands)

	December 31, 2006	March 31, 2007 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,646	\$ 4,179
Short term investments (Note 4)	18,375	20,421
Inventory, net	957	843
Accounts and other receivables, net of reserves of \$1 and \$1, respectively	93	559
Prepaid expenses and other current assets	168	195
Total current assets	23,239	26,197
Property and equipment, net	4,720	4,667
Patent and trademark rights, net	857	878
Investment	35	35
Construction in Progress	601	635
Royalty Interest	624	587
Deferred financing costs	38	19
Advance receivable (Note 5)	1,300	1,300
Other assets	17	17
Total assets	\$ 31,431	\$ 34,335
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,548	\$ 1,594
Accrued expenses	1,261	1,330
Current portion of long-term debt (Note 5)	3,871	3,987
Total current liabilities	6,680	6,911
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 \$0.01 per share, authorized 200,000,000 shares; issued and outstanding 66,816,764 and 70,676,490 respectively	67	71
Additional paid-in capital	191,689	199,239
Accumulated other comprehensive income	46	265
Accumulated deficit	(167,051)	(172,151)
Total stockholders' equity	24,751	27,424
Total liabilities and stockholders' equity	\$ 31,431	\$ 34,335

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2006	2007
Revenues:		
Sales of product net	\$ 183	\$ 220
Clinical treatment programs	53	35
Total revenues	236	255
Costs and expenses:		
Production/cost of goods sold	299	236
Research and development	2,430	3,176
General and administrative	3,093	1,783
Total costs and expenses	5,822	5,195
Other (expense) and interest and other income	(45)	49
Interest expense	(84)	(71)
Financing costs (Note 5)	(205)	(138)
Net loss	\$ (5,920)	\$ (5,100)
Basic and diluted loss per share (Note 2)	\$ (.10)	\$ (.07)
Weighted average shares outstanding, basic and diluted	58,235,839	68,825,344

See accompanying notes to consolidated financial statements.

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive loss
(in thousands except share data)
(Unaudited)

	Common Stock Shares	Common Stock \$.001 Par Value	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' equity
Balance at December 31, 2006	66,816,764	\$ 67	\$ 191,689	\$ 46	\$(167,051)	\$ 24,751
Interest Payments	33,203	-	76	-	-	76
Private placement, net of issuance costs	3,798,113	4	7,266	-	-	7,270
Stock issued for settlement of accounts payable	28,410	-	63	-	-	63
Equity based compensation	-	-	145	-	-	145
Net comprehensive income (loss)	-	-	-	219	(5,100)	(4,881)
Balance at March 31, 2007	70,676,490	\$ 71	\$ 199,239	\$ 265	\$(172,151)	\$ 27,424

See accompanying notes to consolidated financial statements.

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows**

For the Three Months Ended March 31, 2006 and 2007

(in thousands)

(Unaudited)

	2006	2007
Cash flows from operating activities:		
Net loss	\$ (5,920)	\$ (5,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	30	61
Amortization of patent and trademark rights, and royalty interest	28	44
Financing cost related to debt discounts	205	138
Equity based compensation	1,953	145
Common stock issued in payment of interest expense	101	73
Changes in assets and liabilities:		
Inventory	138	114
Accounts and other receivables	34	(466)
Prepaid expenses and other current assets	(48)	(27)
Accounts payable	807	109
Accrued expenses	(224)	69
Net cash used in operating activities	\$ (2,896)	\$ (4,840)
Cash flows from investing activities:		
Purchase of property plant and equipment	\$ (6)	\$ (19)
Additions to patent and trademark rights	(22)	(51)
Maturity of short term investments	12,548	18,329
Purchase of short term investments	(13,344)	(20,156)
Construction in Progress	(860)	-
Net cash used in investing activities	\$ (1,684)	\$ (1,897)

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
For the Three Months Ended March 31, 2006 and 2007
(in thousands)
(Unaudited)

	2006	2007
Cash flows from financing activities:		
Proceeds from exercise of stock warrants	\$ 672	\$ -
Proceeds from sale of stock, net of issuance costs	10,600	7,270
Net cash provided by financing activities	\$ 11,272	\$ 7,270
Net increase in cash and cash equivalents	6,692	533
Cash and cash equivalents at beginning of period	3,827	3,646
Cash and cash equivalents at end of period	\$ 10,519	\$ 4,179
Supplemental disclosures of non-cash investing and financing cash flow information:		
Issuance of common stock for accounts payable and accrued expenses	\$ 84	\$ 63
Issuance of common stock for debt conversion and debt payments	\$ 333	\$ -
Unrealized gains on investments	\$ 220	\$ 219

See accompanying notes to consolidated financial statements.

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

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 subsidiary, Hemispherx Biopharma Europe N.V./S.A., established in Belgium in 1998, has limited or no activity. All significant intercompany balances and transactions have been eliminated in consolidation.

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 our annual consolidated financial statements and notes thereto.

These consolidated financial statements should be read in conjunction with our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 19, 2007.

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 including the Company's convertible debentures, which amounted to 18,416,587 and 22,294,987 shares, are excluded from the calculation of diluted net loss per share for the three months ended March 31, 2006 and 2007, respectively, since their effect is antidilutive.

NOTE 3: EQUITY BASED COMPENSATION

The fair value of each option award is estimated on the date of grant using a Black-Scholes option 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. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The fair values of the options granted, were estimated based on the following weighted average assumptions:

	Three Months Ended March 31,	
	2006	2007
Risk-free interest rate	4.3% - 4.6%	4.46 - 4.77%
Expected dividend yield	-	-
Expected lives	2.5-5 yrs	5 yrs
Expected volatility	72.1%-79.3%	77.06 - 77.57%
Weighted average grant date fair value of options and warrants issued	\$ 2,503,000	\$ 135,712

Stock option activity during the three months ended March 31, 2007, 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 December 31, 2006	2,001,969	\$ 2.51	8.01	
Options granted	64,120	2.14	9.75	
Options forfeited	-	-	-	
Outstanding March 31, 2007	2,066,089	2.50	8.10	-
Exercisable March 31, 2007	1,952,103	2.52	8.70	-

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2007 was \$80,716.

Unvested stock option activity for employees:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2006	113,986	\$ 2.26	9.05	
Options granted	-	-	-	
Options forfeited	-	-	-	-
Outstanding March 31, 2007	113,986	\$ 2.26	9.05	-

Stock option activity for non-employees:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2006	1,326,732	\$ 2.63	8.18	
Options granted	33,750	\$ 2.37	9.75	
Options forfeited	-	-	-	
Outstanding March 31, 2007	1,360,482	\$ 2.63	8.20	-
Exercisable March 31, 2007	1,323,382	\$ 2.63	8.60	-

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2007 was \$42,486.

Unvested stock option activity for non-employees during the year:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2006	37,100	\$ 2.28	9.81	
Options granted	-	-	-	
Options forfeited	-	-	-	-
Outstanding March 31, 2007	37,100	\$ 2.28	9.81	-

The impact on the Company's results of operations of recording equity based compensation for the three months ended March 31, 2007 was to increase general and administrative expenses by approximately \$123,000 and reduce earnings per share by \$0.00 per basic and diluted share.

As of March 31, 2007, there was \$94,000 of unrecognized equity based compensation cost related to options granted under the Equity Incentive Plan.

Note 4: SHORT TERM INVESTMENTS

Securities classified as available for sale consisted of:

Name of security	March 31, 2007		Unrealized gain (loss)	Maturity date
	Cost	Market value		
Natexis Banques Popolare	\$ 969,000	\$ 992,000	\$ 23,000	May, 2007
AIG FDG Disc Com Paper	972,000	997,000	25,000	April, 2007
General Electric Cap Corp	965,000	988,000	23,000	June, 2007
American General Fin Corp	965,000	987,000	22,000	June, 2007
Daimlechryster	965,000	987,000	22,000	June, 2007
LaSalle Bank	965,000	987,000	22,000	June, 2007
General Electric Cap Corp	1,240,000	1,258,000	18,000	July, 2007
General Electric Cap Serv	1,202,000	1,216,000	14,000	September, 2007
HSBC Finance	1,000,000	1,014,000	14,000	August, 2007
FHLMC	1,051,000	1,065,000	14,000	November, 2007
FHLMC	960,000	973,000	13,000	October, 2007
FNMA	800,000	806,000	6,000	December, 2007
FNMA	3,000,000	3,029,000	29,000	November, 2007
FHLMC	3,099,000	3,125,000	26,000	December, 2007
HSBC Finance	1,004,000	1,002,000	(2,000)	December, 2007
General Electric	999,000	995,000	(4,000)	December, 2007
	\$ 20,156,000			