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HEMISPHERX BIOPHARMA INC

Form 424B3

January 28, 2004

PROSPECTUS SUPPLEMENT

Filed Pursuant to Rule 424(b)(3)
Registration Nos. 333-108645 and 333-111135

PROSPECTUS SUPPLEMENT
Number 1
to
Prospectus dated December 18, 2003

of

HEMISPHERX BIOPHARMA, INC.

This Prospectus Supplement includes the following updated and revised information concerning Hemispherx Biopharma, Inc.:

- o Information about the placement of Debentures and related securities to two institutional investors on January 26, 2004,
- o Summary Consolidated Financial Data and
- o Revised pro forma financial information

Our common stock is listed on the American Stock Exchange under the symbol HEB.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement is January 27, 2004

Recent Private Placement

On January 26, 2004, we closed a private placement with two institutional investors of 6% senior secured convertible debentures due January 31, 2006 in the aggregate principal amount of \$4,000,000 (the "Debentures"), warrants to purchase an aggregate of up to 790,514 shares of our common stock, 158,103 shares of our common stock (the "Shares") and Additional Investment Rights (to purchase up to an additional \$2,000,000 principal amount of Debentures commencing in six months).

The Debentures mature on January 31, 2006 and bear interest at 6% per annum, payable quarterly in cash or, subject to satisfaction of certain conditions, common stock. Any shares of common stock issued to the Investors as payment of interest shall be valued at 95% of the average closing sales price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Commencing six months after issuance, we are required to start repaying the then outstanding principal amount under the Debentures in monthly installments amortized over 18 months in cash or, at our option, in shares of common stock. Any shares of common stock issued to the Investors as installment payments shall be valued at 95% of the arithmetic average Weighted Average Price (as defined in the Debentures) of the common stock during the 10-day trading period commencing on and including the eleventh trading day immediately preceding the date that

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the installment is due.

The Debentures are convertible at the option of the Investors at any time through January 31, 2006 into shares of our common stock. The conversion price under the Debentures is fixed at \$2.53 per share, subject to adjustment for anti-dilution protection for issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect.

There are two classes of warrants received by the Investors; class A and class B. The class A warrants are to acquire at any time from July 26, 2004 through July 26, 2009 an aggregate of up to 395,257 shares of common stock at a price of \$3.29 per share. The class B warrants are to acquire at any time from July 26, 2004 through July 26, 2009 an aggregate of up to 395,257 shares of common stock at a price of \$5.06 per share. On January 27, 2005, the exercise price of the class A and B warrants will reset to the lesser of the respective exercise price then in effect or a price equal to the average of the daily price of the common stock between January 27, 2004 and January 26, 2005 (but in no event less than \$2.58 per share with regard to the class A warrants and \$3.54 per share with regard to the class B warrants). The exercise price (and the reset price) under the warrants also is subject to similar adjustments for anti-dilution protection.

We also issued to the Investors Additional Investment Rights pursuant to which the Investors have the right to acquire up to an additional \$2,000,000 principal amount of Debentures from us. The Additional Investment Rights are exercisable commencing on July 26, 2004 (the "Trigger Date") for a period of 90 days from the Trigger Date or 90 days from the date upon which the registration statement registering the shares issuable upon conversion of the

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Debentures to be issued pursuant to the Additional Investment Rights is declared effective, which ever is longer.

We entered into a Registration Rights Agreement with the Investors in connection with the issuance of the Debentures (including any Debentures issued pursuant to the Additional Investment Rights), the Shares and the warrants. The Registration Rights Agreement requires that the Company register on behalf of the Investors the Shares issued to the Investors and 135% of the shares issuable upon conversion of the Debentures (including payment of interest thereon) and exercise of the warrants.

By agreement between us and the holders of warrants issued in the 2003 placements, the warrants issued in those transactions will not be exercisable until July 26, 2004 and, accordingly, the expiration dates for these warrants have been extended by the number of days corresponding to the delay in the ability of the holders to exercise the warrants.

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Summary Consolidated Financial Data

In the table below, we provide you with our summary historical financial data. We have prepared this information using our audited financial statements for each of the five years in the period ended December 31, 2002, and our unaudited financial statements for the nine months ended September 30, 2002 and September 30, 2003. Operating results for the nine months ended September 30,

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2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

It is important that you read this summary historical financial data in conjunction with our historical financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

(in thousands except share and per share data)

Consolidated
Statements
of Operations
Data:

| | Year ended December 31, | | | | |
|---|-------------------------|-------------|------------|------------|----------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| | ---- | ---- | ---- | ---- | ---- |
| Revenues: | | | | | |
| Clinical | | | | | |
| Treatment Programs | \$ 401 | \$ 678 | \$ 788 | \$ 390 | \$ 3 |
| License Fees | -- | -- | -- | -- | 5 |
| Income | | | | | |
| Sale of Products | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Total Revenues | 401 | 678 | 788 | 390 | 9 |
| Cost & Expenses: | | | | | |
| Production Costs | | | | | |
| Research & Development | 4,562 | 4,737 | 6,136 | 5,780 | 4,9 |
| General & Administrative(1) | 3,753 | 8,721 | 3,695 | 3,412 | 2,0 |
| Total Cost and Expenses | 8,315 | 13,458 | 9,831 | 9,192 | 6,9 |
| Interest and Other Income | 590 | 482 | 572 | 284 | 1 |
| Interest Expense | -- | -- | -- | -- | -- |
| Other Expense | -- | -- | (81) | (565) | (1,4 |
| Net Loss | \$ (7,324) | \$ (12,298) | \$ (8,552) | \$ (9,083) | \$ (7,4 |
| Basic and Diluted Loss Per Share | \$ (.32) | \$ (.47) | \$ (.29) | \$ (.29) | \$ (. |
| Basic and Diluted Weighted Average Shares Outstanding | 22,724,913 | 26,380,351 | 29,251,846 | 31,443,208 | 32,095,7 |
| Other Cash Flow Data | | | | | |

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| | | | | | |
|-----------------------------------|------------|------------|------------|------------|---------|
| Cash Used in Operating Activities | \$ (5,853) | \$ (6,990) | \$ (8,074) | \$ (7,281) | \$ (6,4 |
| Capital Expenditures | (151) | (251) | (171) | -- | |

| | Nine Months Ended September 30, | | Pro Forma for Asset Acquisition | |
|--|------------------------------------|--------------------|--|-------------------------------------|
| | 2002 | 2003 | Year ended December 31, 2002 (4) | Nine Months Ended 2003 (4) |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenues: | | | | |
| Clinical Treatment Programs | \$ 263 | \$ 118 | \$ 341 | \$ 118 |
| License Fees | 563 | -- | 563 | -- |
| Income | | | | |
| Sale of Products | -- | 236 | 1,926 | 478 |
| Total Revenues | 826 | 354 | 2,830 | 596 |
| Cost & Expenses: | | | | |
| Production Costs | | 224 | 1,505 | 583 |
| Research & Development | 3,732 | 2,574 | 6,428 | 2,763 |
| General & Administrative (1) | 2,447 | 2,550 | 3,921 | 2,844 |
| Total Cost and Expenses | 6,179 | 5,348 | 11,854 | 6,190 |
| Interest and Other Income | 90 | 61 | 103 | 61 |
| Interest Expense | -- | (5,795) | (3,160) | (4,945) |
| Other Expense | (750) | (0) | (1,470) | (0) |
| Net Loss | \$ (6,013) | \$ (10,728) | \$ (13,551) | \$ (10,481) |
| Basic and Diluted Loss Per Share | \$ (.19) | \$ (.31) | \$ (.40) | \$ (.29) |
| Basic and Diluted Weighted Average Shares Outstanding | 32,083,957 | 34,210,987 | 33,641,776 | 35,671,997 |
| Other Cash Flow Data | | | | |
| Cash Used in Operating Activities | \$ (4,927) | \$ (4,926) | | |

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Expenditures -- --

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Balance Sheet Data:

| | December 31, | | | | | September 30, | |
|-------------------------|--------------|----------|----------|----------|---------|---------------|-------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 | 2003(2) |
| | ---- | ---- | ---- | ---- | ---- | ----- | ----- |
| | | | | | | (unaudited) | (unaudited) |
| Working Capital | \$12,587 | \$ 9,507 | \$ 7,550 | \$ 7,534 | \$2,925 | \$3,484 | \$ 5,9 |
| Total Assets | 16,327 | 14,168 | 13,067 | 12,035 | 6,040 | 6,863 | 11,9 |
| Shareholders' Equity | 15,185 | 12,657 | 11,572 | 10,763 | 3,630 | 4,983 | 7,3 |
| Book value per share(6) | | | | | | | . |

- (1) General and Administrative expenses include stock compensation expense totaling \$795, \$4,618, \$397, \$673, \$132, \$132 and \$0 for the years ended December 31, 1998, 1999, 2000, 2001, and 2002 and for the nine months ended September 30, 2002 and 2003, respectively.
- (2) For information concerning recent acquisitions of certain assets of Interferon Sciences, Inc. ("ISI") and related financing see notes 8 and 9 to our consolidated financial statements for the nine months ended September 30, 2003 and notes 1 and 16 to our consolidated financial statements for the year ended December 31, 2002, contained elsewhere in this prospectus.
- (3) In accounting for the March 12, 2003 and July 10, 2003 (\$5,426,000 each) issuances of 6% Senior Convertible Debentures and related embedded conversion features and warrant issuances, we recorded debt discounts of approximately \$9.0 million, which in effect reduced the carrying value of the debt to \$1.3 million. Excluding the application of related accounting standards, our debt outstanding as of September 30, 2003 totaled approximately \$4.8 million. For additional information refer to note 9 to our consolidated financial statements for the nine months ended September 30, 2003 and note 16 to our consolidated financial statements for the year ended December 31, 2002, contained elsewhere in this prospectus.
- (4) The unaudited Pro Forma consolidated statements of operations data for the year ended December 31, 2002 and the nine months ended September 30, 2003 have been prepared giving effect to the acquisition of certain assets of ISI and the related funding of the transaction, by our March 12, 2003 6% senior convertible debentures, as if they occurred on January 1, 2002.

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The unaudited Pro Forma consolidated balance sheet data has been prepared as if the second portion of the acquisition of certain assets of ISI had occurred on September 30, 2003.

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The unaudited pro-forma financial statements give effect to the second asset acquisition agreement with ISI irrespective of the fact that it remains unconsummated and is contingent on the ISI stockholders approving the transaction. For additional information, see the pro forma consolidated financial statements contained elsewhere in the prospectus.

- (5) Does not reflect the issuance of the October 29, 2003 \$4,142,357 6% senior convertible debentures resulting in net cash proceeds to us of \$1.7 million which are non-inclusive of approximately \$1.6 million of proceeds held back contingent upon us acquiring of ISI's facility.
- (6) Book value per share is computed by dividing shares outstanding into shareholders' equity as of the above dates.

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Hemispherx Biopharma, Inc. Unaudited Pro forma Financial Information.

Consolidated Statements of Operations for the year ended December 31, 2002 and for the nine months ended September 30, 2003.

Consolidated Balance Sheet as of September 30, 2003.

The unaudited pro-forma adjustments give effect to the second agreement with ISI irrespective of the fact that the second acquisition remains unconsummated and is contingent on the Company receiving the appropriate governmental approval for the real estate to be acquired and ISI stockholders approving the transaction.

Hemispherx Biopharma, Inc. and Subsidiaries Year ended December 31, 2002 (in thousands, except per share data)

| | (1) HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES ----- 2002 ---- | (2) INTERFERON SCIENCES, INC. AND SUBSIDIARY ----- 2002 ---- | (3) PRO FORMA ADJUSTMENTS FOR FIRST ASSET ACQUISITION ----- | PRO FORMA AS ADJUSTED FOR FIRST ASSET ACQUISITION ----- |
|-----------------------------|--|---|---|--|
| Revenues: | | | | |
| Sales of product | \$ -- | \$ 1,926 | \$ | \$ 1,926 |
| Clinical treatment programs | 341 | | | 341 |
| License fee income | 563 | | | 563 |
| | ----- 904 ----- | ----- 1,926 ----- | ----- -- ----- | ----- 2,830 ----- |
| Costs and expenses: | | | | |
| Costs of goods sold/idle | | | | |
| Production costs | -- | 1,482 | (37) (a) | 1,445 |

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| | | | | |
|--|------------|------------|-------------|-------------|
| Research and development | 4,946 | 1,514 | (39) (a) | 6,421 |
| General and administrative | 2,015 | 1,818 | (34) (a) | 3,915 |
| | | | 116 (c) | |
| | ----- | ----- | ----- | ----- |
| Total cost and expenses | 6,961 | 4,814 | 6 | 11,781 |
| | ----- | ----- | ----- | ----- |
| Interest and other income | 103 | 7 | (7) (a) | 103 |
| Interest and related expenses | | (386) | 386 (a) | (1,551) |
| | | | (1,551) (b) | |
| Investments in unconsolidated affiliates | (1,470) | | | (1,470) |
| Gain on sale of state net operating loss carryovers | | 528 | (528) (a) | -- |
| | ----- | ----- | ----- | ----- |
| Net loss | \$ (7,424) | \$ (2,739) | \$ (1,706) | \$ (11,869) |
| | ----- | ----- | ----- | ----- |
| Basic and diluted loss per share | \$ (0.23) | | | \$ (0.36) |
| | ----- | | | ----- |
| Basic and diluted weighted Average common shares outstanding | 32,086 | | 487 | 32,573 |
| | ----- | | ----- | ----- |

See accompanying notes to consolidated statement of operations

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NOTES TO UNAUDITED PROFORMA
CONSOLIDATED STATEMENT OF OPERATIONS

The following notes describe the column headings in the unaudited pro forma consolidated statement of operations and the pro forma adjustments that have been made to this statement:

- (1) Reflects the audited consolidated historical statement of operations of Hemispherx Biopharma, Inc. and subsidiaries for the year ended December 31, 2002.
- (2) Reflects the audited consolidated historical statement of operations for ISI for the year ended December 31, 2002.
- (3) Reflects pro forma adjustments relating to the first acquisition of certain assets of ISI and the related funding as follows:
 - (a) Adjustments to reflect the following:

Production Cost. Production cost related to sales of product by ISI are based on ours cost of inventory purchased from ISI in the First Asset Acquisition. A portion of our total cost of the net assets was allocated to inventory in accordance with FASB 141.

Interest Expense and Interest Income. ISI debt was not assumed by us. As a result, interest on the debt has been eliminated.

Depreciation. The ISI building is being acquired in the Second Asset Acquisition. Depreciation expense related to the building has not been included for the First Asset Acquisition adjustments. The depreciation of the building, based on the cost of the Second Asset Acquisition, is recorded in entry 4(e) below.

Sale of State Net Operating Loss Carryover. The gain on the sale by ISI of state tax losses has been eliminated.

| | Production Cost | R&D | G&A | Other | Total |
|--|--------------------|------|------|----------|----------|
| Inventory | \$ (287) | | | | \$ (287) |
| Interest income | | | | \$ (7) | (7) |
| Interest expense | | | | 386 | 386 |
| Depreciation | 324 | \$39 | \$34 | | 397 |
| Sale of State net operating loss carryover | | | | (528) | (528) |
| Total | \$ 37 | \$39 | \$34 | \$ (149) | \$ (39) |

- (b) Increase in interest expense resulting from the issuance of \$3.1 million of 6% senior convertible debentures. Interest expense is inclusive of deferred interest charges resulting from the Company recording debt discounts of \$2.1 million in recognition of fair values of detachable warrants, contingent conversion features original issued discount and settlement costs recorded in connection with the debenture offering.
- (c) Increase in general and administrative costs of resulting from the recognition of 6% royalty charges on the net sales of the acquired ALFERON N injection product.
- (4) Reflects pro forma adjustments relating to the second acquisition of certain asset of ISI and the related funding as follows:
- (d) Increase in interest expense resulting from the issuance of an additional \$1.6 million 6% senior convertible debentures and additional detachable warrants to purchase 1,000,000 shares of common stock at \$2.40 per share. Interest expense is inclusive of deferred interest charges resulting from the Company recording of additional debt discounts of approximately \$ 2.8 million in recognition of fair values of additional detachable warrants, contingent conversion features, original issued discount and additional settlement costs recorded in connection with the debenture offering.

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- (e) Adjustments reflect depreciation expense relating to the acquired building as result of the second acquisition of certain assets of ISI.

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Hemispherx Biopharma, Inc. and Subsidiaries

Unaudited Pro Forma Consolidated Statement of Operations
 Nine Months ended September 30, 2003
 (in thousands, except per share data)

| | (1) | (2) | (3) | |
|--------------------------------|--|---|---|---|
| | HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES | INTERFERON SCIENCES, INC. AND SUBSIDIARY | PRO FORMA ADJUSTMENTS FOR FIRST ASSET ACQUISITION | PRO FORMA AS ADJUSTED FOR FIRST ASSET ACQUISITION |
| | ----- 2003 ---- | ----- 2003 ---- | ----- ----- ----- | ----- ----- ----- |
| Revenues: | | | | |
| Sales of product | \$ 236 | \$ 242 | \$ -- | \$ 478 |
| Clinical treatment programs | 118 | | | 118 |
| | ----- | ----- | ----- | ----- |
| Total Revenues | 354 | 242 | | 596 |
| | ----- | ----- | ----- | ----- |
| Costs and expenses: | | | | |
| Costs of goods sold/idle | | | | |
| Production costs | 224 | 267 | 47 (a) | 538 |
| Research and development | 2,574 | 176 | (7) (a) | 2,743 |
| General and administrative | 2,550 | 963 | (675) (a) | 2,838 |
| Royalty Expense | | | 29 (c) | 29 |
| | ----- | ----- | ----- | ----- |
| Total cost and expenses | 5,348 | 1,406 | (606) | 6,148 |
| | ----- | ----- | ----- | ----- |
| Interest and other income | 61 | 13 | (13) | 61 |
| Interest and related expenses | (5,795) | (274) | 274 (a) | (5,795) |
| Metacine Settlement | | 1,550 | (1,550) (a) | |
| Service fee income | | 451 | (451) (a) | -- |
| Other income | | 14 | (14) (a) | -- |
| Bulk sale of Alferon inventory | | 1,149 | (1,149) (a) | -- |
| | ----- | ----- | ----- | ----- |
| Net loss | \$ (10,728) | \$1,739 | \$ (2,297) | \$ (11,286) |
| | ----- | ----- | ----- | ----- |
| Basic and diluted loss | | | | |

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| | | |
|--|----------|----------|
| per share | \$ (.31) | \$ (.32) |
| | ----- | ----- |
| Basic and diluted weighted Average common shares outstanding | 34,211 | 35,185 |
| See accompanying notes to consolidated statement of operations | | |

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NOTES TO UNAUDITED PROFORMA
CONSOLIDATED STATEMENT OF OPERATIONS

The following notes describe the column headings in the unaudited pro forma consolidated statement of operations and the pro forma adjustments that have been made to this statement:

- (1) Reflects the unaudited consolidated historical statement of operations of Hemispherx Biopharma Inc. and subsidiaries for the nine months ended September 30, 2003.
- (2) Reflects the unaudited consolidated historical statement of operations for ISI for the period ended September 30, 2003.
- (3) Reflects pro forma adjustments relating to the first acquisition on March 11, 2003 of certain assets of ISI and the related funding as follows:
 - (a) Adjustments to reflect the following:

Production Cost. Production cost related to sales of product by ISI are based on our cost of inventory purchased from ISI in the First Asset Acquisition. A portion of our total cost of the net assets was allocated to inventory in accordance with FASB 141.

Interest Expense and Interest Income. ISI debt was not assumed by us. As a result, interest on the debt has been eliminated.

Depreciation. The ISI building is being acquired in the Second Asset Acquisition. Depreciation expense related to the building has been included for the First Asset Acquisition adjustments. The depreciation of the building, based on the cost of the Second Asset Acquisition, is recorded in entry 4(e) below.

Service fee income paid to ISI by us, the gain on the bulk sale of the Alferon inventory to us and the Metacine settlement have been eliminated.

General and administrative expenses beyond March 11, 2003 have been eliminated.

| | Production Cost | R&D | G&A | Other | Total |
|------------------|--------------------|-----|-----|-------|----------|
| Inventory | \$ (109) | | | | \$ (109) |
| Interest expense | | | | \$274 | 274 |

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| | | | | | |
|-----------------------------------|---------|-----|-------|------------|------------|
| Interest income | | | | (13) | (13) |
| Depreciation | 62 | \$7 | \$ 7 | | 76 |
| Service fee income | | | | (451) | (451) |
| Other income | | | | (14) | (14) |
| Bulk sale of Alferon inventory | | | | (1,149) | (1,149) |
| G&A after March 11, 2003 | | | 668 | | 668 |
| Metacine Settlement | | | | (1,550) | (1,550) |
| Totals | \$ (47) | \$7 | \$675 | \$ (2,903) | \$ (2,268) |

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- (b) Increase in general and administrative costs resulting from the recognition of 6% royalty charges on the net sales of the acquired ALFERON N Injection product.
- (4) Reflects pro forma adjustments relating to the second acquisition of certain asset of ISI and the related funding as follows:
- (c) Decrease in interest expense for the effect of the conversion of \$4.4 million of the 6% senior convertible debentures during the nine months ended September 30, 2003 as it relates to write offs of debt discounts recognized in connection with the debenture offering for which we have given effect to on pro forma basis as if it had occurred during the year ended December 31, 2002.
- (d) Adjustments reflect depreciation expense relating to the acquired building as result of the second acquisition of certain assets of ISI.

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Hemispherx Biopharma, Inc. and Subsidiaries
Unaudited Pro Forma Consolidated Balance Sheet

| | | |
|--------------------------------------|---|---|
| September 30, 2003 (in thousands) | (1) HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES | (2) PRO FORMA ADJUSTMENTS FOR SECOND ASSET ACQUISITION |
| | ----- | ----- |

ASSETS

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Current Assets:

| | | |
|--|-----------|----------|
| Cash and cash equivalents | \$ 5,061 | |
| Other receivables | 141 | |
| Inventories net of reserves | 2,545 | |
| Prepaid and other current assets | 309 | |
| | ----- | ----- |
| Total current assets | 8,056 | |
| | ----- | ----- |
| Property, plant and equipment, net | 112 | 2,269 |
| Patent and trademark rights, net | 1,076 | |
| Investments in unconsolidated affiliates | 408 | |
| Deferred financing costs | 270 | |
| Deferred acquisition costs | 1,068 | (1,068) |
| Advance receivable | 951 | |
| Other assets | 51 | |
| | ----- | ----- |
| Total assets | \$ 11,992 | \$ 1,201 |
| | ===== | ===== |

LIABILITIES

Current liabilities:

| | | |
|--|-----------|----------|
| Accounts payable | \$857 | \$ 363 |
| Accrued expenses | 857 | |
| Current portion of long term debt | 349 | |
| | ----- | ----- |
| Total current liabilities | 2,063 | 363 |
| | ----- | ----- |
| Long term debt net of current portion | 969 | |
| Redeemable common stock | 1,600 | 625 |
| Stockholders' equity : | | |
| Common stock | 38 | |
| Additional paid-in capital | 117,145 | 213 |
| Accumulated deficit | (109,802) | |
| Treasury stock | (21) | |
| | ----- | ----- |
| Total stockholders' equity | 7,360 | 213 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 11,992 | \$ 1,201 |
| | ===== | ===== |

See accompanying notes to consolidated balance sheet

NOTES TO UNAUDITED PROFORMA
CONSOLIDATED BALANCE SHEET

The following notes describe the column headings in the unaudited pro-forma consolidated balance sheet and the pro forma adjustments that have been made to this balance sheet:

- (1) Reflects the unaudited consolidated historic balance sheet of Hemispherx Biopharma Inc. and subsidiaries as of September 30, 2003.

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- (2) Reflects pro forma adjustments for the second acquisition of certain assets of ISI totaling \$2.2 million and the assumption of certain obligations, including those settled via the issuance of shares of the Company's common stock. A portion of the common shares totaling \$.6 million issued to ISI were redeemable and are reflected as such.

As a result of the agreements, the following table summarizes the estimated fair values of the assets and liabilities assumed at the acquisition date. (AMOUNTS IN THOUSANDS)

| Second Acquisition | |
|--|---------|
| ----- | |
| Cost of Building and Equipment : | |
| 487,026 shares to ISI (to be issued) | \$ 760 |
| 581,761 shares to Creditors (issued on 6/2/03) | 907 |
| Assumed Liability for Tax Liens | 602 |
| | ----- |
| Total Cost of Building and Equipment | \$2,269 |
| | ===== |

The issued shares were valued at \$1.56 per share which was the closing price of our shares on the American Stock Exchange as of March 12, 2003.