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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2005

Commission File Number: 0-27072

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.)

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. |_| Yes |X| No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).|X| Yes |_| No

62,299,252 shares of common stock were issued and outstanding as of July 12, 2006.

FORM 10-Q/A
EXPLANATORY NOTE

This amendment on Form 10-Q/A amends our Quarterly Report for the second quarter of 2005 initially filed with the Securities and Exchange Commission ("SEC") on August 9, 2005 (the "original Form 10-Q"). It is being filed to reflect the restatement (the "Restatements") of our consolidated balance sheets and related

consolidated statements of operations, cash flows and stockholders' equity and comprehensive loss as of and for the three and six months ended June 30, 2005 and 2004, as discussed in Note 2 to the consolidated financial statements.

No attempt has been made in this Form 10-Q/A to modify or update disclosures in the original Form 10-Q except as required to address the Restatements. Except as described below, this Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q 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 original Form 10-Q with the SEC. Accordingly, this Form 10-Q/A should be read in conjunction with the original Form 10-Q and our filings made with the SEC subsequent to the filing of the original Form 10-Q, 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 I, Items 1, 2 and 4 are set forth herein, including those portions of the text that have not been amended from that set forth in the original Form 10-Q. The only changes to the text in Part I, Items 1, 2 and 4 of the original Form 10-Q are as follows:

Part I

Item 1.

- The financial statements, including the footnotes, have been revised to reflect the changes required by the Restatements.
- A new footnote (Note 2) has been added to describe the Restatements and the other footnotes have been revised to conform with the footnote presentation and disclosure in our Form 10-Q for the quarter ended March 31, 2006 (which was filed with the SEC on June 30, 2006).
- Note 3: Stock Based Compensation was revised to include the three month pro forma effect on the Company's net loss and loss per share had compensation cost for the Company's option plans been determined.
- The paragraphs concerning the August 2004 Private Placement which were originally included in Note 8: Debenture Financing have been moved to Note 9: Equity Financing to separate it from the changes required by the restatements.

- The paragraph concerning the closing of the August 2004 Private Placement and its triggering of anti-dilution provisions within Note 9: Equity Financing was removed to reflect the changes required by the restatements.

Item 2.

- An additional critical accounting policy titled "Convertible Debentures" has been added.
- The following subsections in both "Three months ended June 30, 2005 versus Three months ended June 30, 2004" and "Six months ended June 30, 2005 versus Six months ended June 30, 2004" have been revised as a result of the Restatements: "Net Loss," "General and Administrative Expenses" and "Interest Expense and Financing Costs." In addition, a subsection titled "Deemed Dividend" has been added in the three and six month comparisons.
- An additional risk factor titled "We reported material weaknesses in our internal control over financial reporting that, if not remedied, could adversely affect our internal

controls" has been added.

- The risk factor "We may continue to incur substantial losses and our future profitability is uncertain" has been revised to correct the accumulated deficit as a result of the Restatements.

Item 4.

- This Item has been revised in its entirety due to the Restatements.

Summary of Restatements

In 2003 and 2004, we entered into convertible debenture arrangements which are inherently complicated, which have been and continue to be the subject of numerous intricate accounting pronouncements and interpretations and which are not classified as normal recurring transactions. Our convertible debenture transactions were reported within our previously filed financial statements for the years ended December 31, 2003 and 2004. After an extensive review and consultation with the our independent registered public accountants and our audit committee, we determined that we must restate our historical financial statements for the years ended December 31, 2003 and 2004 as well as the interim financial statements for 2003, 2004, and 2005. We determined that, with respect to the accounting for the convertible debentures, the interpretation and application of EITF No. 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" was not correct at the time the convertible debentures were initially recorded and upon conversion price resets related to the convertible debentures. As a result of this determination, we restated our annual financial statements and quarterly results of operations (unaudited) included in our annual report on Form 10-K/A for the period ending December 31, 2005, which was filed on June 5, 2006 and further amended Footnote 19, Quarterly Results of Operations (unaudited), to those financials in our Annual Report on Form 10-K/A-2 for the fiscal year ended December 31, 2005, which was filed on July 31, 2006.

In addition, we restated: (i) our condensed consolidated unaudited interim financial statements for the quarter ended March 31, 2005 included in our quarterly report on Form 10-Q for the quarter ended March 31, 2006, which was filed on June 30, 2006; (ii) our condensed consolidated unaudited interim financial statements for the quarter and six months ended June 30, 2005 and 2004 included in this quarterly report on Form 10-Q/A; and (iii) the condensed consolidated unaudited interim financial statements for quarter and nine months ended September 30, 2005 and 2004 contained in our September 30, 2005 quarterly report on Form 10-Q/A filed on July 31, 2006. The modifications in the restated financial statements relate to non-cash charges that do not affect our revenues, cash flows from operations or liquidity.

PART I - FINANCIAL INFORMATION

ITEM 1: Financial Statements

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands, except share data)

	(Restated) December 31, 2004	(Restated) June 30, 2005 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,813	$ 5,802
Short term investments	7,924	6,812
Inventory, net (Note 5)	2,148	1,815
Accounts and other receivables	139	72
Prepaid expenses and other current assets	266	225
Total current assets	19,290	14,726
Property and equipment, net	3,303	3,325
Patent and trademark rights, net	908	805
Investment (Note 4)	35	35
Construction in Progress	--	31
Deferred financing costs	440	233
Advance receivable (Note 8)	1,300	1,300
Other assets	17	17
Total assets	$ 25,293	$ 20,472
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 526	$ 414
Accrued expenses	1,012	608
Current portion of long-term debt, net	3,818	5,033
Total current liabilities	5,356	6,055
Long-Term Debt-net of current portion (Note 8)	494	--
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 100,000,000 shares; issued and outstanding 49,631,766 and 50,509,429, respectively	50	51
Additional paid-in capital	154,609	155,992
Accumulated other comprehensive income	(10)	(95)
Accumulated deficit	(135,206)	(141,531)

Total stockholders' equity	19,443	14,417
Total liabilities and stockholders' equity	$ 25,293	$ 20,472

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,	
	2004 (Restated)	2005 (Restated)
Revenues:		
Sales of product net	$ 289	$ 240
Clinical treatment programs	42	60
Total Revenues:	331	300
Costs and expenses:		
Production/cost of goods sold	692	103
Research and development	758	1,158
General and administrative	1,076	1,523
Total costs and expenses	2,526	2,784
Interest and other income	13	63
Interest expense	(105)	(107)
Financing costs (Note 8)	(497)	(817)
Net loss	$ (2,784)	$ (3,345)
Deemed Dividend	(2,355)	--
Net loss applicable to common stockholders	$ (5,139)	$ (3,345)
Basic and diluted loss per share	$ (.12)	$ (.07)
Weighted average shares outstanding	43,871,350	50,299,176

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2004 (Restated)	2005 (Restated)
Revenues:		
Sales of product net	$ 548	$ 469
Clinical treatment programs	91	89
Total Revenues:	639	558
Costs and expenses:		
Production/cost of goods sold	1,293	201
Research and development	1,720	2,426
General and administrative	3,921	2,550
Total costs and expenses	6,934	5,177
Interest and other income	24	293
Interest expense	(206)	(213)
Financing costs (Note 8)	(3,371)	(1,786)
Net loss	$ (9,848)	$ (6,325)
Deemed Dividend	(2,355)	--
Net loss applicable to common stockholders	$ (12,203)	$ (6,325)
Basic and diluted loss per share	$ (.29)	$ (.13)
Weighted average shares outstanding	42,040,412	50,033,623

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

For the Six Months Ended June 30, 2005 (Unaudited)
(in thousands, except share data)

	Common stock		Additional paid-in capital
	Shares	Amount	
Balance as of December 31, 2004, Restated	49,631,766	$ 50	$ 154,6
Shares issued for:			
Payment of accounts payable	222,310		1
Conversion of debt	514,107	1	7
Warrants converted	5,000		
Interest on convertible debt	136,246		2
Options and warrants issued for services			1
Conversion price adjustment			
Net comprehensive loss			
Balance as of June 30, 2005, Restated	50,509,429	$ 51	$ 155,9

	Accumulated other Comprehensive Income (Loss)	Accumulated deficit	Total stockholde equity
Balance as of December 31, 2004, Restated	$ (10)	$ (135,206)	$ 19
Shares issued for:			
Payment of accounts payable			
Conversion of debt			
Warrants converted			
Interest on convertible debt			
Options and warrants issued for services			
Conversion price adjustment			
Net comprehensive loss	(85)	(6,325)	(6
Balance as of June 30, 2005, Restated	$ (95)	$ (141,531)	$ 14

See accompanying notes to financial statements

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2004 and 2005 (Unaudited)
(in thousands)

	2004 (Restated)	2005 (Restated)
Cash flows from operating activities:		
Net loss	$ (9,848)	$ (6,325)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	53	57
Amortization of patent and trademark rights	160	174
Amortization of deferred financing costs	2,841	1,786
Financing cost related to redemption obligation	530	--
Stock warrant compensation expense	1,769	106
Interest expense	206	213
Changes in assets and liabilities:		
Inventory	273	333
Accounts and other receivables	125	67
Deferred revenue	497	--
Prepaid expenses and other current assets	(76)	41
Accounts payable	365	80
Accrued expenses	(781)	(397)
Other Assets	14	--
Net cash used in operating Activities	(3,872)	(3,865)
Cash flows from investing activities:		
Purchase of land and building	(143)	--
Purchase of property, plant and equipment	--	(110)
Additions to patent and trademark rights	(121)	(71)
Maturity of short term investments	1,496	7,934
Purchase of short term investments	(4,969)	(6,907)
Net cash (used in) provided by investing activities	$ (3,737)	$ 846

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
For the Six Months Ended June 30, 2004 and 2005(Unaudited)
(in thousands)

	2004 (Restated)	2005 (Restated)
Cash flows from financing activities:		
Proceeds from long-term borrowing	5,808	--
Advance receivable	(410)	--
Proceeds from exercise of stock Warrants	2,911	8
Net cash provided by financing Activities	8,309	8
Net increase (decrease) in cash and cash equivalents	700	(3,011)
Cash and cash equivalents at beginning of period	3,764	8,813
Cash and cash equivalents at end of period	$ 4,464	$ 5,802
Supplemental disclosures of cash flow information:		
Issuance of common stock for accounts payable and accrued expenses	$ 255	$ 192
Issuance of Common Stock for Purchase of building	$ 1,626	$ --
Issuance of Common Stock for Debt Conversion and Interest Payments on Convertible Debt	$ 6,072	$ 994

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 accompanying consolidated financial statements include the accounts of Hemispherx BioPharma, Inc., a Delaware corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

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/A-2 for the year ended December 31, 2005, as filed with the SEC on July 31, 2006.

Note 2: Restatements

In 2003 and 2004, the Company entered into convertible debenture arrangements which are inherently complicated, which have been and continue to be the subject of numerous intricate accounting pronouncements and interpretations and which are not classified as normal recurring transactions. The Company's convertible debenture transactions were reported within the Company's previously filed financial statements for the years ended December 31, 2003 and 2004. After an extensive review and consultation with the the Company's independent registered public accountants and the Company's audit committee, it was determined that the Company must restate its historical financial statements for the years ended December 31, 2003 and 2004 as well as the interim financial statements for 2003, 2004, and 2005. The Company determined that, with respect to the accounting for the convertible debentures, the interpretation and application of EITF No. 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" was not correct at the time the convertible debentures were initially recorded and upon conversion price resets related to the convertible debentures. As a result of this determination, the Company restated its annual financial statements and quarterly results of operations (unaudited) included in its annual report on Form 10-K/A for the period ending December 31, 2005, which was filed on June 5, 2006 and further amended Footnote 19, Quarterly Results of Operations (unaudited), to those financials in its Annual Report on Form 10-K/A-2 for the fiscal year ended December 31, 2005, which was filed on July 31, 2006.

In addition, the Company restated: (i) its condensed consolidated unaudited interim financial statements for the quarter ended March 31, 2005 included in its quarterly report on Form 10-Q for the quarter ended March 31, 2006, which was filed on June 30, 2006; (ii) its condensed consolidated unaudited interim financial statements for the quarter and six months ended June 30, 2005 and 2004 included in this quarterly report on Form 10-Q/A; and (iii) the condensed consolidated unaudited interim financial statements for quarter and nine months ended September 30, 2005 and 2004 contained in its September 30, 2005 quarterly report on Form 10-Q/A filed on July 31, 2006. The modifications in the restated financial statements relate to non-cash charges that do not affect its revenues, cash flows from operations or liquidity.

(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 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 three months ended June 30, 2004 and 2005 by approximately $3,240,000 and $628,000 or $0.07 and $0.01 per share, respectively, and decrease the net loss applicable to common stockholders for the six months ended June 30, 2004 and 2005 by approximately $4,334,000 and $791,000, or $0.10 and $0.01 per share, respectively.

(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 value of the warrants issued to Cardinal as part of the Debenture issuances was determined to be computed incorrectly at the time of issuance. The total impact of this restatement on the Company's statement of operations was to increase the net loss applicable to common stockholders for the three months ended June 30, 2004 and 2005 by approximately $68,000 and $43,000 or $0.00 and $0.00 per share respectively, and increase the net loss applicable to common stockholders for the six months ended June 30, 2004 and 2005 by approximately $185,000 and $86,000 or $0.00 and $0.00 per share, respectively.

(c) The accounting treatment for certain warrants and options issued to non-employees and our interpretationand application of FASB No. 123 was not correct in 2005. The total impact of this restatement on the Company's settlement of operations was to increase the net loss for the three months ended June 30, 2005, by approximately $114,000 or $0.00 and an increase in the net loss applicable to common stockholders for the six months ended June 30, 2005 by approximately $159,000 or $0.00 per share.

(d) The accounting treatment set forth in FASB Statement No. 123, "Accounting for Stock-Based Compensation", for the issuance of the May 2009 Warrants that was originally interpreted and reflected in the financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2003 and 2004, and in the Company's Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 was not correctly applied and as a result a restatement of our financial statements for the periods referenced above was required. The Warrants issued as incentive to exercise prior warrant issuances should be reflected as a deemed dividend at the date of issuance where previously these warrants were either recorded as additional debt discount or as a financing charge at date of issuance. The total impact of this restatement on the Company's statement of operations was to decrease the net loss applicable to common stock holders for the three and six months ended June 30, 2004 by $2,355,000 or $0.05 and $0.06 per share, respectively.

As a result of the corrections of the errors described above, the Company has restated its financial statements in this Quarterly Report on Form 10-Q/A as follows:

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)
Three Months Ended June 30, 2005

	June 30, 2005 As previously Reported	Adjustments		June 30, 2005 Restated
Revenues:				
Sales of product net	$ 240			$
Clinical treatment programs	60			
Total Revenues:	300			
Costs and expenses:				
Production/cost of goods sold	103			
Research and development	1,158			1,
General and administrative	1,409	$ (114)	(c)	1,
Total costs and expenses	2,670	(114)		2,
Interest and other income	63			
Interest expense	(107)			(
Financing costs	(1,402)	585	(a)(b)	(
Net loss	$ (3,816)	$ 471	(a)(b)	$ (3,
Basic and diluted loss per share	$ (.08)	$ 0.01		$ (
Weighted average shares outstanding	50,299,176			50,299,

(a) Includes restatement adjustments for the Debentures relating to the initial recording of and the effect of certain Conversion Price Resets on the Debentures, as described above.

(b) Includes restatement adjustment for investment banking fees related to Cardinal, as described above.

(c) Includes restatement adjustments for certain warrants and options issued to non-employees and the Company's interpretation and application of FASB No. 123 was not correct in 2005, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)
Three Months Ended June 30, 2004

	June 30, 2004 As previously Reported	Adjustments		June 30, 2004 Restated
Revenues:				
Sales of product net	$ 289			$ 289
Clinical treatment programs	42			42
Total Revenues:	331			331
Costs and expenses:				
Production/cost of goods sold	692			692
Research and development	758			758
General and administrative	1,076			1,076
Total costs and expenses	2,526			2,526
Interest and other income	13			13
Interest expense	(105)			(105)
Financing costs	(3,669)	$ 3,172	(a)(b)	(497)
Net loss	$ (5,956)	3,172	(a)(b)	$ (2,784)
Deemed Dividend	--	(2,355)	(d)	(2,355)
Net loss applicable to common stockholders	$ (5,956)	$ 817		$ (5,139)
Basic and diluted loss per share	$ (.14)	$ 0.02		$ (.12)

Weighted average shares outstanding	43,871,350			43,871,350

(a) Includes restatement adjustments for the Debentures relating to the initial recording of and the effect of certain Conversion Price Resets on the Debentures, as described above.

(b) Includes restatement adjustment for investment banking fees related to Cardinal, as described above.

(d) Includes restatement adjustment for the issuance of the May 2009 warrants as incentive to exercise prior warrant issuances, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)
Six Months Ended June 30, 2005

	June 30, 2005 As previously Reported	Adjustments		June 30, 2005 Restated
Revenues:				
Sales of product net	$ 469			$ 469
Clinical treatment programs	89			89
Total Revenues:	558			558
Costs and expenses:				
Production/cost of goods sold	201			201
Research and development	2,426			2,426
General and administrative	2,391	$ (159)	(c)	2,550
Total costs and expenses	5,018	(159)		5,177
Interest and other income	293			293
Interest expense	(213)			(213)
Financing costs	(2,491)	705	(a)(b)	(1,786)
Net loss	$ (6,871)	$ 546	(a)(b)	$ (6,325)
Basic and diluted loss per share	$ (.14)	$ 0.01		$ (.13)
Weighted average shares outstanding	50,033,623			50,033,623

(a) Includes restatement adjustments for the Debentures relating to the initial recording of and the effect of certain Conversion Price Resets on the Debentures, as described above.

(b) Includes restatement adjustment for investment banking fees related to Cardinal, as described above.

(c) Includes restatement adjustments for certain warrants and options issued to non-employees and the Company's interpretation and application of FASB No. 123 was not correct in 2005, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)
Six Months Ended June 30, 2004

	June 30, 2004 As previously Reported	Adjustments		June 30, 2004 Restated
Revenues:				
Sales of product net	$ 548			$ 548
Clinical treatment programs	91			91
Total Revenues:	639			639
Costs and expenses:				
Production/cost of goods sold	1,293			1,293
Research and development	1,720			1,720
General and administrative	3,921			3,921
Total costs and expenses	6,934			6,934
Interest and other income	24			24
Interest expense	(206)			(206)
Financing costs	(7,520)	$ 4,149	(a)(b)	(3,371)
Net loss	$ (13,997)	4,149	(a)(b)	$ (9,848)
Deemed Dividend	--	(2,355)	(d)	(2,355)
Net loss applicable to common stockholders	$ (13,997)	$ 1,794		$ (12,203)
Basic and diluted loss per share	$ (.33)	$ 0.04		$ (.29)

Weighted average shares outstanding	42,040,412	42,040,412

(a) Includes restatement adjustments for the Debentures relating to the initial recording of and the effect of certain Conversion Price Resets on the Debentures, as described above.

(b) Includes restatement adjustment for investment banking fees related to Cardinal, as described above.

(d) Includes restatement adjustment for the issuance of the May 2009 warrants as incentive to exercise prior warrant issuances, as described above.

The Company and the Company's audit committee have discussed the above errors and adjustments with the Company's current independent registered public accounting firm and have determined that a restatement was necessary for the period described above.

NOTE 3: STOCK BASED COMPENSATION

The Company follows Statement of Financial Accounting Standards(SFAS) No. 123, "Accounting for Stock-Based Compensation." We chose to apply Accounting Principal Board Opinion 25 and related interpretations in accounting for stock options granted to our employees.

The Company provides pro forma disclosures of compensation expense under the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure."

The weighted average assumptions used for the period presented are as follows:

	June 30,	
	2004	2005
Risk-free interest rate	--	4.81%
Expected lives	--	5 years
Expected volatility	--	58.78% - 60.67%

Had compensation cost for the Company's option plans been determined, using the fair value method at the grant dates, the effect on the Company's net loss and loss per share for the Three and Six months ended June 30, 2004 and 2005 would have been as follows:

	(In Thousands)		(In Thousands)	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2005	2004	2005
Net loss applicable to common				

stockholders, as restated	$ (5,139)	$ (3,345)	$ (12,203)	$ (6,325)
Add: Stock based employee compensation expenses; included in reported net loss	--	106	1,769	106
Deduct: Total stock based employee compensation determined under fair value method for all awards	--	(55)	--	(82)
Pro forma net loss	$ (5,139)	$ (3,294)	$ (10,434)	$ (6,301)
Basic and diluted loss per share				
As restated	$ (.12)	$ (.07)	$ (.29)	$ (.13)
Pro forma	$ (.12)	$ (.07)	$ (.25)	$ (.13)

Note 4: INVESTMENT IN UNCONSOLIDATED AFFILIATES

Investments include an equity investment of $35,000 in Chronix Biomedical ("Chronix"). Chronix focuses upon the development of diagnostics for chronic diseases. This initial investment was made in May 31, 2000 by the issuance of 50,000 shares of the Company's common stock from the treasury. On October 12, 2000, the Company issued an additional 50,000 shares of its common stock and on March 7, 2001 the Company issued 12,000 more shares of its common stock from the treasury to Chronix for an aggregate equity investment of $700,000. The percentage ownership in Chronix is approximately 5.4% and is accounted for under the cost method of accounting. During the quarter ended December 31, 2002, the Company recorded a non-cash charge of $292,000 with respect to the investment in Chronix. The Company recorded an additional non-cash charge of $373,000 during the quarter ended September 30, 2004, due to evidence of a further decline in Chronix's market value. This impairment reduces the carrying value to reflect a permanent decline in Chronix's market value based on its then proposed investment offerings.

NOTE 5: INVENTORIES

The Company uses the lower of first-in, first-out ("FIFO") cost or market method of accounting for inventory.

Inventories consist of the following:

	December 31, 2004	June 30, 2005
Raw materials-work in process	$ 1,711,000	$1,711,000
Finished goods, net of $225,000 reserve	437,000	104,000
	$ 2,148,000	$1,815,000

The Company's reserve for R&D utilization as of June 30, 2005, totaled $225,000 for Alferon N finished goods that may not be sold prior to their 18 month shelf-life expiration. Also, the Company may consume some, or all of this, potentially stale inventory in its Research & Development efforts. The Company completed tests in 2004 to extend the product shelf life to 24 months. The Company filed its annual report with the FDA in December 2004 including

documentation for the extension of shelf-life to 24 months. The Company received a response from the FDA at the end of June 2005 concerning the relabeling request of Alferon N Injection(R). After reviewing the information submitted, the FDA determined the submission as a "Prior Approval Supplement". Under this designation, the FDA has six months, as of May 2005, to approve the request to relabel Alferon N Injection(R) with the extended shelf-life. The Company now anticipates a response from the FDA by September 2005.

NOTE 6: REVENUE AND LICENSING FEE INCOME

The company executed a Memorandum of Understanding (MOU) in January 2004 with Astellas Pharma ("Astellas"), formally Fujisawa Deutschland GmbH (Fuji), a major pharmaceutical corporation, granting them an exclusive option for a limited number of months to enter a Sales and Distribution Agreement with exclusive rights to market Ampligen(R) for ME/CFS in Germany, Austria and Switzerland. The Company received an initial fee of 400,000 Euros (approximately $497,000 US) in 2004. On November 9, 2004, Astellas exercised their right to terminate the MOU. The Company did not agree on the process to be utilized in certain European Territories for obtaining commercial approval for the sale of Ampligen(R) in the treatment of patients suffering from Chronic Fatigue Syndrome (CFS). Instead of a centralized procedure, and in order to obtain an earlier commercial approval of Ampligen(R) in Europe, the Company has determined to follow a decentralized filing procedure which was not anticipated in the MOU. The Company believes that it now is in the best interest of the Company's stockholders to potentially accelerate entry into selected European markets whereas the original MOU specified a centralized registration procedure. Pursuant to the agreement of the parties the Company refunded 200,000 Euros to Fuji. The company has recorded the remaining 200,000 Euros ($242,000 USD) as an accrued liability as of June 30, 2005. The Company is currently holding the 200,000 Euros pending further developments in accordance with the mutually agreed upon termination with Fuji. Fuji and Yamanouchi Pharmaceutical Co., Ltd. ("Yamanouchi") have reached a definitive agreement upon the terms of their merger, which took effect on April 1, 2005. Yamanouchi will be the surviving company and Fuji will be dissolved. The combined company name will be Astellas Pharma, Inc.

Revenues for non-refundable license fees are recognized under the Performance Method-Expected Revenue. This method considers the total amount of expected revenue during the performance period, but limits the amount of revenue recognized in a period to total non-refundable cash received to date. This limitation is appropriate because future milestone payments are contingent on future events.

Upon receipt, the upfront non-refundable payment is deferred. The non-refundable upfront payments plus non-refundable payments arising from the achievement of defined milestones are recognized as revenue over the performance period based on the lesser of (a) percentage of completion or (b)non-refundable cash earned (including the upfront payment).

This method requires the computation of a ratio of cost incurred to date to total expected costs and then apply that ratio to total expected revenue. The amount of revenue recognized is limited to the total non-refundable cash received to date.

During the period ended June 30, 2005, the Company did not receive any grant monies from local, state and or Federal Agencies.

Revenue from the sale of Ampligen(R) under cost recovery clinical treatment protocols approved by the FDA is recognized when the treatment is provided to

the patient.

Revenues from the sale of product are recognized when the product is shipped, as title is transferred to the customer. The Company has no other obligation associated with its products once shipment has occurred.

Note 7: ACQUISITION OF ASSETS OF INTERFERON SCIENCES, INC. ("ISI")

On March 11, 2003, the Company acquired from ISI, ISI's inventory of ALFERON N Injection(R) and a limited license for the production, manufacture, use, marketing and sale of this product. As partial consideration, the Company issued 487,028 shares of its common stock to ISI Pursuant to their agreements with ISI, the Company registered these shares for public sale and ISI has reported that it has sold all of these shares. The Company also agreed to pay ISI 6% of the net sales of ALFERON N Injection(R).

On March 11, 2003, the Company also entered into an agreement to purchase from ISI all of its rights to the product and other assets related to the product including, but not limited to, real estate and machinery. For these assets, the Company agreed to issue to ISI an additional 487,028 shares and to issue 314,465 shares and 267,296 shares, respectively to the American National Red Cross and GP Strategies Corporation, two creditors of ISI. The Company guaranteed the market value of all but 62,500 of these shares to be $1.59 per share on the termination date. As discussed below, the Company issued all of these shares and ISI, GP Strategies and the American National Red Cross have reported that they have sold all of their shares.

The Company also agreed to satisfy other liabilities of ISI which were past due and secured by a lien on ISI's real estate and to pay ISI 6% of the net sales of products containing natural alpha interferon.

On May 30, 2003, the Company issued the shares to GP Strategies and the American National Red Cross. Pursuant to the Company's agreements with ISI and these two creditors, the Company registered the foregoing shares for public sale. As a result at December 31, 2003 the guaranteed value of these shares ($491,000), which had not been sold by these two creditors, were reclassified to redeemable common stock. At December 31, 2004, all shares had been sold by these two creditors and the redeemable common stock was reclassed to equity.

On November 6, 2003, the Company acquired and subsequently paid, the outstanding ISI property tax lien certificates in the aggregate amount of $457,000 from certain investors. These tax liens were issued for property taxes and utilities due for 2000, 2001 and 2002.

In March 2004, the Company issued 487,028 shares to ISI to complete the acquisition of the balance of ISI's rights to market its product as well as its production facility in New Brunswick, New Jersey. ISI has sold all of its shares. The aggregated cost of the land and buildings was approximately $3,316,000. The cost of the land and buildings was allocated as follows:

Land	$ 423,000
Buildings	2,893,000
Total cost	$3,316,000

The Company accounted for these transactions as a Business Combination under SFAS No. 141 Accounting for Business Combinations.

Note 8: DEBENTURE FINANCING

Long term debt consists of the following:

	(in thousands) December 31, 2004	June 30, 2005
	(As restated)	(As restated)
October 2003 Debenture	$ 2,071	$ 2,071
January 2004 Debenture	3,083	2,305
July 2004 Debenture	2,000	2,000
Total	7,154	6,376
Less Discounts	(2,842)	(1,343)
Balance	4,312	5,033
Less Current Portion of long-term debt	(3,818)	(5,033)
Total long-term debt (As Restated)	$ 494	$ --

As of June 30, 2005, the Company made aggregate installment payments of $1,556,000 and the investors converted an aggregate $2,210,000 principal amount of debt from the debentures as noted below (in thousands):

Debenture	Original Principal Amount	Debt Conversion to Common Shares	Installment payments in Common Shares	Remaining Principal Amount	Common Shares issued f Conversi
October 2003	$ 4,142	$ 2,071	$ --	$ 2,071	
January 2004	4,000	139	1,556	2,305	
July 2004	2,000	--	--	2,000	
Totals	$ 10,142	$ 2,210	$ 1,556	$ 6,376	

As of December 31, 2004, the Company made installment payments of $778,000 and investors converted an aggregate $2,210,000 principal amount of debt from the debentures as noted below (in thousands):

Debenture	Original Principal Amount	Debt Conversion to Common Shares	Installment payments in Common Shares	Remaining Principal Amount	Common Shares issued f Conversi
October 2003	$ 4,142	$ 2,071	$ --	$ 2,071	
January 2004	4,000	139	778	3,083	

July 2004	2,000	--	--	2,000	
Totals	$ 10,142	$ 2,210	$ 778	$ 7,154	

July 2003 Debentures

On July 10, 2003, the Company issued an aggregate of $5,426,000 in principal amount of 6% Senior Convertible Debentures due July 31, 2005 (the "July 2003 Debentures") and an aggregate of 507,102 Warrants (the "July 2008 Warrants") in a private placement for aggregate proceeds of $4,650,000. At this time, the $1,550,000 of proceeds from the March 2003 Debentures previously held back from the Company was released to the Company. However, pursuant to the terms of the July 2003 Debentures, $1,550,000 of the proceeds from the sale of the July 2003 Debentures was held back and to be released to the Company if, and only if, the Company acquired ISI's facility with in a set timeframe. These funds were released to the Company in October 2003 although the Company had not acquired ISI's facility at that time. The Company recorded an additional debt discount of $259,000 upon receiving the held back proceeds of $1,550,000 in October 2003. The July 2003 Debentures were to mature on July 31, 2005 and bore 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 were valued at 95% of the average closing price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms and conditions of the July 2003 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

The July 2003 Debentures were convertible at the option of the investors at any time through July 31, 2005 into shares of the Company's common stock. The conversion price under the July 2003 Debentures was fixed at $2.14 per share; however, as part of the subsequent debenture placement closed on October 29, 2003 (see below), the conversion price under the July 2003 Debentures was lowered to $1.89 per share. The conversion price was 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. In addition, in the event that the Company did pay the redemption price at maturity, the Debenture holders, at their option, could have converted the balance due at the lower of (a) the conversion price then in effect and (b) 95% of the lowest closing sale price of the Company's common stock during the three trading days ending on and including the conversion date. In 2003, the Company recorded a debt discount of approximately $741,000 upon the conversion price reset to $1.89 per share. The additional debt discount is amortized over the remaining life of these Debenture or, in the event of a conversion, written off to financing costs on a pro-rata basis.

The July 2008 Warrants received by the investors, as amended, were exercisable for an aggregate of 507,102 shares of common stock at a price of $2.46 per share. These Warrants, as amended, did not result in any additional debt. These Warrants were exercised in July 2004 which produced gross proceeds in the amount of $1,247,000.

Pursuant to the Company's agreement with the holders, as discussed below in "Registration Rights Agreements", the Company registered the shares issuable upon conversion of the July 2003 Debentures and upon exercise of the July 2008 Warrants for public sale.

The July 2003 Debentures were recorded at a discount on issuance and with an original issue discount of approximately $2,280,000 and $517,000, respectively, due to ascribing value to the beneficial conversion feature and fair value of warrants based on the relative fair value of the proceeds.

The conversion option and detachable warrant carry registration rights and a feature that in certain circumstances, deemed in the control of the Company, could require partial settlement of the conversion options to be in cash. In addition, the July 2003 Debentures include other features including mandatory conversion option and optional redemption rights if contingent transactions occur. To determine whether the July 2003 Debentures had embedded derivatives, including the conversion option, that required bifurcation and fair value accounting, the Company analyzed the terms of the debentures in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" ("EITF 00-19"). The Company concluded that bifurcation was not required for the conversion option and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") was the appropriate accounting to be applied. The warrants were deemed to be permanent equity. The mandatory conversion option and optional redemption rights were deemed to be derivatives requiring bifurcation and thus the Company obtained a third party valuation for the aggregate fair value of these derivatives that showed the fair value to be immaterial at inception and for each subsequent reporting period.

During 2003, the investors had converted approximately $1,169,000 principal of the July 2003 Debentures into 618,478 shares of the Company's Common Stock.

During 2004, the investors had converted $4,257,071 principal of the July 2003 Debentures into 2,252,417 shares of the Company's Common Stock. As of December 31, 2004, the investors had converted the total $5,426,000 principal of the July 2003 Debentures into 2,870,900 shares of common stock.

The Company recorded financing costs for the three months ended June 30, 2004 and 2005, with regard to the July 2003 Debentures of approximately $390,000 and $0, respectively. Interest incurred for the three months ended June 30, 2004 and 2005 was $30,000 and $0, respectively.

The Company recorded financing costs for the six months ended June 30, 2004 and 2005, with regard to the July 2003 Debentures of approximately $1,366,000 and $0, respectively. Interest incurred for the six months ended June 30, 2004 and 2005 was $64,000 and $0, respectively.

October 2003 Debentures

On October 29, 2003, the Company issued an aggregate of $4,142,357 in principal amount of 6% Senior Convertible Debentures due October 31, 2005 (the "October 2003 Debentures") and an aggregate of 410,134 Warrants (the "October 2008 Warrants") in a private placement for aggregate gross proceeds of $3,550,000. Pursuant to the terms of the October 2003 Debentures, $1,550,000 of the proceeds from the sale of the October 2003 Debentures were held back and were to be released to the Company if, and only if, the Company acquired ISI's facility within 90 days of January 26, 2004 and provided a mortgage on the facility as further security for the October 2003 Debentures. In April 2004, the Company acquired the facility and the Company subsequently provided the mortgage of the facility, as collateral, to the Debenture holders and the above funds were released. The Company recorded an additional debt discount of $259,000 upon receiving these held back proceeds. The October 2003 Debentures were to mature on October 31, 2005 and bore 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 are to be valued at 95% of the average closing price of the common stock during the five consecutive

business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms and conditions of the October 2003 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

The October 2003 Debentures are convertible at the option of the investors at any time through October 31, 2005 into shares of the Company's common stock. The conversion price under the October 2003 Debentures is fixed at $2.02 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. In addition, in the event that the Company does not pay the redemption price at maturity, the Debenture holders, at their option, may convert the balance due at the lower of (a) the conversion price then in effect and (b) 95% of the lowest closing sale price of the Company's common stock during the three trading days ending on and including the conversion date.

The October 2008 Warrants, as amended, received by the investors were to acquire an aggregate of 410,134 shares of common stock at a price of $2.32 per share. These Warrants were exercised in July 2004 which produced gross proceeds in the amount of approximately $952,000.

Pursuant to the Company's agreement with the holders, the Company registered the shares issuable upon conversion of the October 2003 Debentures and upon exercise of the October 2008 Warrants for public sale.

The October 2003 Debentures were recorded at a discount on issuance and with an original issue discount of $2,000,000 and $333,000, respectively, due to ascribing value to the beneficial conversion feature and fair value of warrants based on the relative fair value of the proceeds.

The conversion option and detachable warrant carry registration rights and a feature that in certain circumstances, deemed in the control of the Company, could require partial settlement of the conversion options to be in cash. In addition, the October 2003 Debentures include other features including mandatory conversion option and optional redemption rights if contingent transactions occur. To determine whether the October 2003 Debentures had embedded derivatives, including the conversion option, that required bifurcation and fair value accounting, the Company analyzed the terms of the debentures in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" ("EITF 00-19"). The Company concluded that bifurcation was not required for the conversion option and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") was the appropriate accounting to be applied. The warrants were deemed to be permanent equity. The mandatory conversion option and optional redemption rights were deemed to be derivatives requiring bifurcation and thus the Company obtained a third party valuation for the aggregate fair value of these derivatives that showed the fair value to be immaterial at inception and for each subsequent reporting period.

In October 2005, the Company entered into an amendment agreement with the October 2003 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7%.

On July 13, 2004, in consideration for the Debenture holders' exercise of all of the July 2003 ("July 2008 Warrants") and October 2003("October 2008 Warrants") Warrants amounting to approximately $2,199,000 in gross proceeds, the Company issued to these holders warrants (the "June 2009 Warrants") to purchase an aggregate of 1,300,000 shares of common stock. The Company recorded charges associated with the issuance of these warrants, as restated, fair valued using the Black-Scholes Method, at $1,676,000, which has been reflected as a deemed dividend.

Pursuant to the Company's agreement with the holders, the Company registered the shares issuable upon exercise of these Warrants for public sale.

The June 2009 Warrants are to acquire at any time commencing on January 13, 2005 through June 30, 2009 an aggregate of 1,300,000 shares of common stock at a price of $3.75 per share. On July 13, 2005, the exercise price of these June 2009 Warrants was reset to $3.33, the lesser of the exercise price then in effect or a price equal to the average of the daily price of the common stock between July 14, 2004 and July 12, 2005. The exercise price (and the reset price) under the June 2009 Warrants also is subject to adjustments for anti-dilution protection similar to those in the other Warrants. Notwithstanding the foregoing, the exercise price as reset or adjusted for anti-dilution, will in no event be less than $3.33 per share. Upon completion of the August 2004 Private Placement (see below), the exercise price was lowered to $3.33 per share. The Company agreed to register the shares issuable upon exercise of the June 2009 Warrants pursuant to substantially the same terms as the registration rights agreements between the Company and the holders. Pursuant to this obligation, the Company has registered the shares.

The Company has paid $1,300,000 into the debenture cash collateral account as required by the terms of the October 2003 Debentures. The amounts paid through March 31, 2005 have been accounted for as advances receivable and are reflected as such on the accompanying balance sheet as of March 31, 2005. The cash collateral account provides partial security for repayment of the outstanding principal and accrued interest on the Debentures in the event of default.

As of June 30, 2005, the investors had converted $2,071,178 principal amount of the October 2003 Debenture into 1,025,336 shares of Common Stock. The remaining balance of $2,071,179 is convertible into 1,025,336 shares of common stock.

The Company recorded financing costs for the three months ended June 30, 2004 and 2005, with regard to the October 2003 Debentures of $310,000 and $370,000, respectively. Interest expense for the three months ended June 30, 2004 and 2005, with regard to the October 2003 Debentures was approximately $15,000 and $30,000, respectively.

The Company recorded financing costs for the six months ended June 30, 2004 and 2005, with regard to the October 2003 Debentures of $625,000 and $741,000, respectively. Interest expense for the six months ended June 30, 2004 and 2005, with regard to the October 2003 Debentures was approximately $39,000 and $61,000, respectively.

January 2004 Debentures

On January 26, 2004, the Company issued an aggregate of $4,000,000 in principal

amount of 6% Senior Convertible Debentures due January 31, 2006 (the "January 2004 Debentures"), an aggregate of 790,514 warrants (the "July 2009 Warrants") and 158,104 shares of common stock, and Additional Investment Rights (to purchase up to an additional $2,000,000 principal amount of January 2004 Debentures commencing in six months) in a private placement for aggregate net proceeds of $3,695,000. The January 2004 Debentures were to 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. As discussed below, the maturity date and interest rate were amended. Any shares of common stock issued to the investors as payment of interest shall be valued at 95% of the average closing price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms of the January 2004 Debentures, commencing July 26, 2004, the Company began to repay the then outstanding principal amount under the Debentures in monthly installments amortized over 18 months in cash or, at the Company's 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 average closing price of the common stock during the 10-day trading period commencing on and including the eleventh trading day immediately preceding the date that the installment is due. Pursuant to the terms and conditions of the January 2004 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

The January 2004 Debentures are convertible at the option of the investors at any time through January 31, 2006 into shares of the Company's common stock. The conversion price under the January 2004 Debentures was 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. In addition, in the event that the Company does not pay the redemption price at maturity, the Debenture holders, at their option, may convert the balance due at the lower of (a) the conversion price then in effect and (b) 95% of the lowest closing sale price of the Company's common stock during the three trading days ending on and including the conversion date. Upon completion of the August 2004 Private Placement (see Note 9), the conversion price was lowered to $2.08 per share. The Company recorded an additional debt discount as restated (see Note 2), of approximately $915,000 due to this conversion price reset.

In October 2005, the Company entered into an amendment agreement with the January 2004 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7%.

There are two classes of July 2009 Warrants received by the Investors: Class A and Class B. The Class A warrants are to acquire 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 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 these July 2009 Class A and Class B Warrants were reset to the lesser of their 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. The exercise price (and the reset price) under the July 2009 Warrants also is subject to similar adjustments for anti-dilution protection. Notwithstanding the foregoing, the exercise prices as reset or adjusted for anti-dilution, will in no event be less than $2.58 per share. Upon completion of the August 2004 Private Placement (see Note 9), the exercise price was lowered to $2.58 per share.

Pursuant to the Company's agreement with these investors, the Company registered the shares issuable upon conversion of the January 2004 Debentures and upon exercise of the July 2009 Warrants for public sale.

The January 2004 Debentures were recorded at a discount on issuance and with an original issue discount of $306,000 and $465,000, respectively, due to ascribing value to the beneficial conversion feature and fair value of warrants based on the relative fair value of the proceeds.

The conversion option and detachable warrant carry registration rights and a feature that in certain circumstances, deemed in the control of the Company, could require partial settlement of the conversion options to be in cash. In addition, the January 2004 Debentures include other features including mandatory conversion option and optional redemption rights if contingent transactions occur. To determine whether the January 2004 Debentures had embedded derivatives, including the conversion option, that required bifurcation and fair value accounting, the Company analyzed the terms of the debentures in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" (EITF "00-19"). The Company concluded that bifurcation was not required for the conversion option and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") was the appropriate accounting to be applied. The warrants were deemed to be permanent equity. The mandatory conversion option and optional redemption rights were deemed to be derivatives requiring bifurcation and thus the Company obtained a third party valuation for the aggregate fair value of these derivatives that showed the fair value to be immaterial at inception and for each subsequent reporting period.

Section 713 of the American Stock Exchange Company Guide

Section 713 of the American Stock Exchange ("AMEX") Company Guide provides that the Company must obtain stockholder approval before issuance, at a price per share below market value, of common stock, or securities convertible into common stock, equal to 20% or more of the Company's outstanding common stock (the "Exchange Cap"). The Debentures and Warrants have provisions that require the Company to pay cash in lieu of issuing shares upon conversion of the Debentures or exercise of the Warrants if the Company is prevented from issuing such shares because of the Exchange Cap. In May 2004, the Debenture holders agreed to amend the provisions of these Debentures and Warrants to limit the maximum amount of funds that the holders could receive in lieu of shares upon conversion of the Debentures and/or exercise of the Warrants in the event that the Exchange Cap was reached to 119.9% of the conversion price of the relevant Debentures and 19.9% of the relevant Warrant exercise price. See below for the accounting effect on this matter.

Taken separately, the March, July, October and January 2004 debenture transactions do not trigger Section 713. However, the AMEX took the position that these transactions should be aggregated and, as such, stockholder approval was required for the issuance of common stock for a portion of the potential exercise of the warrants and conversion of the Debentures in connection with the January 2004 Debentures. The amount of potential shares that the Company could exceed the Exchange Cap amounted to approximately 1,299,000. In accordance with EITF 00-19, Accounting For Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock, the Company recorded on January 26, 2004, a redemption obligation of approximately $2,160,000, as restated, with a corresponding increase to debt discount to be amortized over the life of the

debt or until the Company obtains shareholder approval. Any remaining discount would be reclassed to additional paid in capital.

In addition, in accordance with EITF 00-19, the Company revalued this redemption obligation as of March 31, 2004. The Company increased the redemption obligation and recorded additional finance charge of $1,024,000 as a result of this revaluation. The Company also incurred $104,000 in financing charges related to the amortization of the related discount during the first quarter of 2004.

Stockholder approval was obtained at the Company's Annual Meeting of Stockholders on June 23, 2004. In accordance with EITF 00-19, the Company revalued this redemption obligation associated with the 1,299,000 shares as of June 23, 2004 (date of shareholder approval). The Company recorded a reduction in the value of the redemption obligation and financing charge of $839,000 as a result of this revaluation and additional financing charge of $242,000 related to the amortization of the debt discount in the second quarter 2004. In addition, upon receiving the requisite stockholder approval on June 23, 2004, the redemption obligation of $2,345,000 and the remaining unamortized debt discount of $1,815,000 were reclassified as additional paid in capital.

As of June 30, 2005, the Company has made aggregate installment payments of $1,555,554 and the investors have converted an aggregate of $139,150 of principal amount of the January 2004 Debentures into 873,039 and 55,000 shares of common stock, respectively. During the six months ended June 30, 2005, the investors converted approximately $779,000_of principal amount of the January 2004 Debentures into 514,107 shares of common stock. The remaining principal on these Debentures was $2,305,000 as of June 30, 2005.

The Company recorded financing costs for the three months ended June 30, 2004 and 2005 with regard to the January 2004 Debentures of $132,000 and $190,000, respectively. Interest expense for the three months ended June 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately $60,000 and $46,000, respectively.

The Company recorded financing costs for the six months ended June 30, 2004 and 2005 with regard to the January 2004 Debentures of $267,000 and $510,000, respectively. Interest expense for the six months ended June 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately $103,000 and $92,000, respectively.

July 2004 Debentures

Pursuant to the Additional Investment Rights issued in connection with the January 2004 Debentures, the Company issued to the investors an additional $2,000,000 principal amount of January 2004 Debentures (the "July 2004 Debentures"). The July 2004 Debentures are identical to the January 2004 Debentures except that the conversion price is $2.58. The investors exercised the Additional Investment Rights on July 13, 2004 and the Company received net proceeds of $1,860,000. Upon completion of the August 2004 Private Placement (see Note 9), the conversion price of the July 2004 Debentures was lowered to $2.08 per share. The Company recorded an additional debt discount of approximately $632,000 upon the conversion price reset to $2.08 per share, which is being amortized over the remaining life of the debenture in accordance with the effective interest method of accounting.

The July 2004 Debentures were recorded at a discount on issuance of $628,000 due to ascribing value to the beneficial conversion feature and fair value of warrants based on the relative fair value of the proceeds.

The conversion option and detachable warrant carry registration rights and a feature that in certain circumstances, deemed in the control of the Company, could require partial settlement of the conversion options to be in cash. In addition, the July 2004 Debentures include other features including mandatory conversion option and optional redemption rights if contingent transactions occur. To determine whether the July 2004 Debentures had embedded derivatives, including the conversion option, that required bifurcation and fair value accounting, the Company analyzed the terms of the debentures in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" (EITF 00-19"). The Company concluded that bifurcation was not required for the conversion option and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") was the appropriate accounting to be applied. The warrants were deemed to be permanent equity. The mandatory conversion option and optional redemption rights were deemed to be derivatives requiring bifurcation and thus the Company obtained a third party valuation for the aggregate fair value of these derivatives that showed the fair value to be immaterial at inception and for each subsequent reporting period.

In October 2005, the Company entered into an amendment agreement with the July 2004 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7%.

The remaining principal amount on these debentures was $2,000,000 as of June 30, 2005.

The Company recorded financing costs for the three months ended June 30, 2004 and 2005 with regard to the July 2004 Debentures of $0 and $124,000, respectively. Interest expense for the three months ended June 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately $0 and $30,000, respectively.

The Company recorded financing costs for the six months ended June 30, 2004 and 2005 with regard to the July 2004 Debentures of $0 and $248,000, respectively. Interest expense for the six months ended June 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately $0 and $60,000, respectively.

Conversion of Convertible Debt

The maximum number of shares issuable upon debt conversion, including interest as well as 135% of the shares issuable upon conversion and interest payments were 5,011,525 and 4,412,526 shares at December 31, 2004 and June 30, 2005, respectively.

Collateral and Financial Covenants

The Company paid $1,300,000 in 2003 into the debenture cash collateral account held by the debenture holders as required by the terms of the October 2003 Debentures. The amounts paid have been accounted for as advances receivable and are reflected as such on the accompanying balance sheet as of June 30, 2005. The cash collateral account provides partial security for repayment of the outstanding Debentures in the event of default.

Pursuant to the terms and conditions of all of the outstanding Debentures, the Company has pledged all of the Company's assets, other than the Company's intellectual property, as collateral, and the Company is subject to comply with

certain financial covenants.

Note 9: EQUITY FINANCING

On August 5, 2004, the Company closed a private placement with select institutional investors ("August 2004 Private Placement") for approximately 3,617,300 shares of its Common Stock and warrants to purchase an aggregate of up to approximately 1,085,200 shares of its Common Stock. Jefferies & Company, Inc. acted as Placement Agent for which it received a fee and warrants to purchase Common Stock. The Company raised approximately $6,984,000 net proceeds from this private offering.

The Warrant issued to each purchaser is exercisable for up to 30% of the number of shares of Common Stock purchased by such Purchaser, at an exercise price equal to $2.86 per share. Each Warrant has a term of five years and is fully exercisable from the date of issuance. Pursuant to the Registration Rights Agreement, made and entered into as of August 5, 2004 (the "Rights Agreement"), the Company registered the resales of the shares issued to the Purchasers and shares issuable upon the exercise of the Warrants.

By agreement with Cardinal Securities, LLC, for general financial advisory services and in conjunction with the August 2004 Private Placement with select institutional investors, the Company paid Cardinal Securities, LLC an investment banking fee of $140,000. The Company paid Cardinal one-half of the fee in cash with the remainder being paid with the issuance of 50,000 warrants to purchase common stock exercisable at $2.50 per share expiring on March 31, 2010 and 46,667 shares of common stock. By agreement with Cardinal Securities, LLC, the Company registered all of the foregoing shares and shares issuable upon exercise of the above mentioned warrants for public resale.

Note 10: EXECUTIVE COMPENSATION

In order to facilitate the Company's need to obtain financing and prior to our stockholders approving an amendment to our corporate charter to increase the number of authorized shares, Dr. Carter agreed to waive his right to exercise certain warrants and options unless and until our stockholders approved an increase in our authorized shares of Common Stock.

In October 2003, in recognition of this action as well as Dr. Carter's prior and on-going efforts relating to product development securing critically needed financing and the acquisition of a new product line, the Compensation Committee determined that Dr. Carter be awarded bonus compensation in 2003 consisting of $196,636 and a grant of 1,450,000 stock warrants with an exercise price of $2.20 per share. This additional compensation was reviewed by an independent valuation firm and found to be fair and reasonable within the context of total compensation paid to chief executive officers of comparable biotechnology companies.

In the quarter ended March 31, 2004, Dr. Carter was awarded an additional bonus of $99,481 by the Compensation Committee. In addition, The Company recorded a non-cash stock compensation charge of $1,769,000 during the first quarter 2004 resulting from warrants issued to Dr. Carter in 2003 that vested upon the execution of the second ISI asset closing on March 17, 2004. This was determined by subtracting the exercise price from the stock closing price on March 17, 2004 and multiplying the result by the number of warrants.

Note 11: EQUITY INCENTIVE PLAN

The Equity Incentive Plan authorizes the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and other stock awards. The Equity Incentive Plan provides for awards to be made to such officers, other key employees, non-employee directors, consultants and advisors of the Company and its subsidiaries as the board of directors may select. A maximum of 8,000,000 shares of common stock is reserved for potential issuance. Unless sooner terminated, the Equity Incentive Plan will continue in effect for a period of 10 years from its effective date. As of June 30, 2005, the Company has granted 1,163,080 options to directors, officers and employees pursuant to the terms of this plan.

Note 12: COMMITMENTS

In May 2005, the Company committed to purchase lab equipment related to the manufacture of Ampligen raw material in the amount of approximately $628,000. The Company paid the initial deposit of approximately $31,400 in May 2005.

Note 13: SUBSEQUENT EVENTS

On July 8, 2005, the Company entered into a common stock purchase agreement with Fusion Capital Fund II, LLC, pursuant to which Fusion Capital has agreed, under certain conditions, to purchase on each trading day $40,000 of the Company's common stock up to an aggregate of $20.0 million over approximately a 25 month period, subject to earlier termination at the Company's discretion. In the Company's discretion, the Company may elect to sell less of the Company's common stock to Fusion Capital than the daily amount and the Company may increase the daily amount as the market price of the Company's stock increases. The purchase price of the shares of common stock will be equal to a price based upon the future market price of the common stock without any fixed discount to the market price. Fusion Capital does not have the right or the obligation to purchase shares of the Company's common stock in the event that the price of the Company's common stock is less than $1.00 Pursuant to the agreement with Fusion Capital, the Company has registered for public sale by Fusion Capital up to 10,795,597 shares of the Company's common stock. However, in the event that the Company decides to issue more than 10,113,278, i.e. greater than 19.99% of the outstanding shares of common stock as of the date of the agreement, the Company would first seek stockholder approval in order to be in compliance with American Stock Exchange rules.

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations.

Special Note Regarding Forward-Looking Statements

Certain statements in this document constitute "forwarding-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1995 (collectively, the "Reform Act"). Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward- looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. All statements other than statements of historical fact, included in this report regarding our financial position, business strategy and plans or objectives for future operations are forward-looking statements. Without limiting the broader description of forward-looking statements above, we specifically note that statements regarding potential drugs, their potential therapeutic effect, the possibility of obtaining regulatory approval, our ability to manufacture and sell any products,

market acceptance or our ability to earn a profit from sales or licenses of any drugs or our ability to discover new drugs in the future are all forward-looking in nature.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors, including but not limited to, the risk factors discussed below, which may cause the actual results, performance or achievements of Hemispherx and its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and other factors referenced in this report. We do not undertake and specifically decline any obligation to publicly release the results of any revisions which may be made to any forward-looking statement to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Overview

We are 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. We were founded in the early 1970s, as a contract researcher for the National Institutes of Health. After almost 30 years, we have 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. We own a U.S. Food and Drug Administration ("FDA") approved GMP (good manufacturing practice) manufacturing facility in New Jersey, and our corporate offices are in Philadelphia, PA.

Our flagship products include Ampligen and Alferon. Ampligen is an experimental drug undergoing clinical trials for the treatment of: Myalgic Encephalomyelitis/Chronic Fatigue Syndrome (ME/CFS), HIV, and HIV/Hepatitis C co-infection. In August 2004, we completed a Phase III clinical trial treating over 230 ME/CFS patients with Ampligen and are in the process of preparing a new drug application to be filed with the FDA. Alferon N Injection is the registered trademark for our injectable formulation of Natural Alpha Interferon, which is approved by the FDA for the treatment of genital warts. Alferon N is also in clinical development for treating Hepatitis C ("HEP-C"), Multiple Sclerosis, Human Immunodeficiency Virus (HIV), West Nile Virus ("WNV") and Severe Acute Respiratory Syndrome (SARS).

We have over 140 patents worldwide with 10 additional patents pending comprising our intellectual property. We continually review our patents rights periodically to determine whether they have continuing value. Such review includes an analysis of the patent's ultimate revenue and profitability potential on an undiscounted cash basis to support the realizability of our respective capitalized cost. In addition, management's review addresses whether each patent continues to fit into our strategic business plans. We have a fully commercialized product (Alferon), and a GMP certified manufacturing facility.

In March 2004, we completed the step-by-step acquisition from Interferon Sciences, Inc. ("ISI") of ISI's commercial assets, Alferon N inventory, a worldwide license for the production, manufacture, use, marketing and sale of Alferon N. As well as, a 43,000 square foot manufacturing facility in New Jersey and the acquisition of all intellectual property related to Alferon. Alferon N 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.

We outsource certain components of our research and development, manufacturing, marketing and distribution while maintaining control over the entire process through our quality assurance group and our clinical monitoring group.

Since the completion of our AMP 516 ME/CFS Phase III clinical trial for use of Ampligen(R) in the treatment of ME/CFS we have received inquiries from and, under confidentiality agreements, are having dialogue with other companies regarding marketing opportunities. No proposals or agreements have resulted from the dialogue, nor can we be assured that any proposals or agreements will result from these inquiries.

Restatements

In 2003 and 2004, we entered into convertible debenture arrangements which are inherently complicated, which have been and continue to be the subject of numerous intricate accounting pronouncements and interpretations and which are not classified as normal recurring transactions. Our convertible debenture transactions were reported within our previously filed financial statements for the years ended December 31, 2003 and 2004. After an extensive review and consultation with the our independent registered public accountants and our audit committee, we determined that we must restate our historical financial statements for the years ended December 31, 2003 and 2004 as well as the interim financial statements for 2003, 2004, and 2005. We determined that, with respect to the accounting for the convertible debentures, the interpretation and application of EITF No. 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" was not correct at the time the convertible debentures were initially recorded and upon conversion price resets related to the convertible debentures. As a result of this determination, we restated our annual financial statements and quarterly results of operations (unaudited) included in our annual report on Form 10-K/A for the period ending December 31, 2005, which was filed on June 5, 2006 and further amended Footnote 19, Quarterly Results of Operations (unaudited), to those financials in our Annual Report on Form 10-K/A-2 for the fiscal year ended December 31, 2005, which was filed on July 31, 2006.

In addition, we restated: (i) our condensed consolidated unaudited interim financial statements for the quarter ended March 31, 2005 included in our quarterly report on Form 10-Q for the quarter ended March 31, 2006, which was filed on June 30, 2006; (ii) our condensed consolidated unaudited interim financial statements for the quarter and six months ended June 30, 2005 and 2004 included in this quarterly report on Form 10-Q/A; and (iii) the condensed consolidated unaudited interim financial statements for quarter and nine months ended September 30, 2005 and 2004 contained in our September 30, 2005 quarterly report on Form 10-Q/A filed on July 31, 2006. The modifications in the restated financial statements relate to non-cash charges that do not affect our revenues, cash flows from operations or liquidity.

(a) Based on SEC guidance presented at the 2005 annual AICPA National Conference on current SEC and PCAOB developments, we re-evaluated our accounting for our 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". We 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. We 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 our Annual Reports on Form 10-K for the years ended December 31, 2004 and 2003, and in our 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 our 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 October 2003 Debenture and the August 2004 Private Placement, 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 our statement of operations was to decrease the net loss applicable to common stockholders for the three months ended June 30, 2004 and 2005 by approximately $3,240,000 and $628,000, or $0.07 and $0.01 per share, respectively and decrease the net loss applicable to common stockholders for the six months ended June 30, 2004 and 2005 by approximately $4,334,000 and $791,000, or $0.10 and $0.01 per share, respectively.

(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 our Annual Report on Form 10-K for the years ended December 31, 2004 and 2003, and our Quarterly reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 and as a result a restatement of our 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 value of the warrants issued to Cardinal as part of the Debenture issuances was determined to be computed incorrectly at the time of issuance. The total impact of this restatement on our statement of operations was to increase the net loss applicable to common stockholders for the three months ended June 30, 2004 and 2005, by approximately $68,000 and $43,000 or $0.00 and $0.00 per share respectively, and increase in the net loss applicable to common stockholders for the six months ended June 30, 2004 and 2005 by approximately $185,000 and $86,000 or $0.00 and $0.00 per share, respectively.

(c) The accounting treatment for certain warrants and options issued to non-employees and our interpretation and application of FASB No. 123 was not correct in 2005. The total impact of this restatement on our settlement of operations was to increase the net loss for the three

months ended June 30, 2005, by approximately $114,000 or $0.00 per share and an increase in the net loss applicable to common stockholders for the six months ended June 30, 2005 by approximately $159,000 or $0.00 per share.

(d) The accounting treatment set forth in FASB Statement No. 123, "Accounting for Stock-Based Compensation", for the issuance of the May 2009 Warrants that was originally interpreted and reflected in the financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2003 and 2004, and in our Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 was not correctly applied and as a result a restatement of our financial statements for the periods referenced above was required. The Warrants issued as incentive to exercise prior warrant issuances should be reflected as a deemed dividend at the date of issuance where previously these warrants were either recorded as additional debt discount or as a financing charge at date of issuance. The total impact of this restatement on our statement of operations was to decrease the net loss applicable to common stockholders for the three and six months ended June 30, 2004 by $2,355,000, or $0.05 and $0.06 per share, respectively.

As a result of the corrections of the errors described above, we have restated our financial statements included in this Quarterly Report on Form 10-Q/A as follows:

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)
Three Months Ended June 30, 2005

	June 30, 2005 As previously Reported	Adjustments		June 30, 2005 Restated
Revenues:				
Sales of product net	$ 240			$ 2
Clinical treatment programs	60			
Total Revenues:	300			3
Costs and expenses:				
Production/cost of goods sold	103			1
Research and development	1,158			1,1
General and administrative	1,409	$ (114)	(c)	1,5
Total costs and expenses	2,670	(114)		2,7
Interest and other income	63			
Interest expense	(107)			(1
Financing costs	(1,402)	585	(a)(b)	(8

Net loss	$ (3,816)	$ 471	(a)(b)	$ (3,3
Basic and diluted loss per share	$ (.08)	$ 0.01		$ (.
Weighted average shares outstanding	50,299,176			50,299,1

(a) Includes restatement adjustments for the Debentures relating to the initial recording of and the effect of certain Conversion Price Resets on the Debentures, as described above.

(b) Includes restatement adjustment for investment banking fees related to Cardinal, as described above.

(c) Includes restatement adjustments for certain warrants and options issued to non-employees and the Company's interpretation and application of FASB No. 123 was not correct in 2005, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations
(in thousands, except share and per share data)
Three Months Ended June 30, 2004

	June 30, 2004 As previously Reported	Adjustments		June 30, 2004 Restated
Revenues:				
Sales of product net	$ 289			$ 2
Clinical treatment programs	42			
Total Revenues:	331			3
Costs and expenses:				
Production/cost of goods sold	692			6
Research and development	758			7
General and administrative	1,076			1,0
Total costs and expenses	2,526			2,5
Interest and other income	13			
Interest expense	(105)			(1
Financing costs	(3,669)	$ 3,172	(a)(b)	(4
Net loss	$ (5,956)	3,172	(a)(b)	$ (2,7

Deemed Dividend	--	(2,355) (d)	(2,3
Net loss applicable to common stockholders	$ (5,956)	$ 817	$ (5,1
Basic and diluted loss per share	$ (.14)	$ 0.02	$ (.
Weighted average shares outstanding	43,871,350		43,871,3

(a) Includes restatement adjustments for the Debentures relating to the initial recording of and the effect of certain Conversion Price Resets on the Debentures, as described above.

(b) Includes restatement adjustment for investment banking fees related to Cardinal, as described ab