HEMISPHERX BIOPHARMA INC
Form DEF 14A
September 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Solicitation Material Pursuant to Rule 14a-11(c) or rule 14a-12

Hemispherx Biopharma, Inc.
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
1) Title of each class of securities to which transaction applies:
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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:
4) Proposed maximum aggregate value of transaction:
5) Total fee paid:

¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PLEASE VOTE! September 16, 2011

Dear Hemispherx Stockholder:

Attached please find proxy materials for our annual stockholders' meeting which will be held on Thursday, October 13, 2011, in Philadelphia, PA. As described on the enclosed proxy, you are able to cast your vote by internet, phone or mail in the following proposals:

Proposal No. 1 – Election of Directors.
Proposal No. 2 – Ratification of selection of Independent Registered Public Accountant.
Proposal No. 3 – Advisory (Non-Binding) vote approving Executive Compensation.
Proposal No. 4 –Amendment of our Certificate of Incorporation to increase the number of Authorized Shares of Common Stock but with restrictions as to the purposes for which such increased Authorized Shares may be utilized.

While Proposals No. 1, 2 and 3 can be passed by a majority of the votes present and participating at the meeting, Proposal No. 4 requires approval by a majority of the total outstanding shares as of the Record Date of August 18, 2011. By way of contrast, while Proposals No. 1 – 3 could be approved with as little as 27,101,375 positive votes, Proposal No. 4 requires at least 67,753,436 positive votes for approval.

Specific Limitations and Restrictions On Usage Of Newly Authorized Shares

To address a potential concern that additional share issuances may dilute your stock holdings while providing us with additional cash without enhancing stockholder value, the Board has voted to significantly limit the utilization of the newly authorizes shares without further stockholder approval. As discussed in more detail in the Proxy and the "Memorandum of Limitations and Restrictions on Stock Issuances" attached thereto, we would not issueany of the newly authorized shares where such issuance would be primarily for fundraising purposes. At this time, we have no anticipated near term need to raise additional capital since we had approximately $39.8 million in cash, cash equivalents and marketable securities as of June 30, 2011, and we have the ability to raise additional funds, if needed, through the sale of up to 31,480,000 already reserved shares pursuant to our At-The-Market equity offering program.

Benefits of Additional Authorized Shares

Our Board of Directors believes that the proposed increase in authorized shares of common stock will benefit Hemispherx stockholders by providing flexibility to issue shares of common stock for general and corporate purposes, including a variety of business and financial objectives in the future without the necessity of delaying such activities for further stockholder approval.

Detriment If Additional Shares Are Not Authorized

Our Board believes that there are compelling reasons why we need additional authorized shares. Without these shares, we could face a significant impediment to our ability to undertake strategic transactions since such actions may be contingent upon our subsequent ability to secure stockholder approval to create the authorized shares. Such a requirement would put us at a competitive disadvantage. As a result, if the number of authorized shares is not increased, we may lose out on important corporate opportunities.

THE BOARD OF DIRECTORS DEEMS PROPOSAL NO. 4 TO BE IN THE BEST INTERESTS OF HEMISPHERX AND ITS STOCKHOLDERS AND

RECOMMENDS A VOTE "FOR" APPROVAL THEREOF.

We emphasize the importance of your vote. If you are a U.S. stockholder, please take a moment to vote your shares via Internet, phone or by mail. All other stockholders are encouraged to contact their custodian bank or broker at their earliest convenience so the voting of their shares can be recognized and submitted for them.

Important Information for Foreign Stockholders

Hemispherx urges all stockholders who owned shares on August 18, 2011, the Record Date for the Meeting, to vote. A significant number of stockholders are domiciled in Europe and are less readily accessible for notification purposes.

European banks and brokerage houses do not necessarily forward the Proxy materials to stockholders. Accordingly, if you are a European stockholder, you most likely will need to contact your bank or broker directly in order to exercise your right to vote. As we are a Delaware corporation, there is no need for your bank or brokerage house to block your shares. Banks and brokerage houses simply need to certify the number of shares owned by their clients on August 18, 2011 and cast votes on your behalf by October 11, 2011 (7 pm EDT).

We have posted a copy of the proxy statement and related documents on our website at http://www.hemispherx.net/content/investor/annualMeeting.asp. For non-U.S. stockholders, we also have posted blank proxy cards in English, French, German and Dutch which they may use to instruct their bank or brokerage house to vote on their behalf.

If you need assistance in voting your shares, Hemispherx suggests that you contact Morrow & Co., LLC, its proxy solicitation agent. Morrow & Co. can be contacted in the U.S. at 203-658-9400 or in London at +44-207-222-4645. Stockholders may also contact Dianne Will, Investor Relations for Hemispherx collect at 518-398-6222 or via e mail at ir@hemispherx.net.

We thank you in advance for voting promptly and we thank you for your continued support.

Sincerely,

Board of Directors
Hemispherx Biopharma, Inc.

Corporate Headquarters

One Penn Center, 1617 JFK Blvd, Philadelphia, PA 19103	www.hemispherx.net	t: 215-988-0080	f: 215-988-1739

Manufacturing

783 Jersey Avenue, New Brunswick, NJ 08901	t: 732-249-3250	f: 732-249-6895

HEMISPHERX BIOPHARMA, INC.
1617 JFK Boulevard
Philadelphia, Pennsylvania 19103
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 13, 2011

To the Stockholders of Hemispherx Biopharma, Inc.:

You are cordially invited to attend the Annual Meeting of Stockholders of Hemispherx Biopharma, Inc. ("Hemispherx"), a Delaware corporation, to be held at the Embassy Suites Hotel, 1776 Benjamin Franklin Parkway, Philadelphia Pennsylvania 19103, on Thursday, October 13, 2011, at 10:00 a.m. (EST), for the following purposes:

1. To elect five members to the Board of Directors of Hemispherx to serve until their respective successors are elected and qualified;

2. To ratify the selection by Hemispherx's Audit Committee of McGladrey & Pullen, LLP, independent registered public accountants, to audit the financial statements of Hemispherx for the year ending December 31, 2011;

3. To approve, by non-binding vote, executive compensation;

4. To amend Hemispherx's certificate of incorporation to increase the number of authorized shares of Hemispherx common stock from 200,000,000 to 350,000,000, but limit the purposes for which such increased authorized shares may be utilized;

5. To transact such other matters as may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on August 18, 2011 are entitled to notice of and to vote at the meeting.

A proxy statement and proxy are enclosed. If you are unable to attend the meeting in person you are urged to sign, date and return the enclosed proxy promptly in the self addressed stamped envelope provided. If you attend the meeting in person, you may withdraw your proxy and vote your shares. We also have enclosed our annual report on Form 10-K for the fiscal year ended December 31, 2010 and our quarterly report on Form 10-Q for the period ended June 30, 2011.

By Order of the Board of Directors

\s\ Thomas K. Equels, Secretary

Philadelphia, Pennsylvania
September 16, 2011

YOUR VOTE IS IMPORTANT

We urge you to promptly vote your shares
by completing, signing, dating and returning
your proxy card in the enclosed envelope, or
voting by Internet or telephone.

PROXY STATEMENT

HEMISPHERX BIOPHARMA, INC.
1617 JFK Boulevard
Philadelphia, Pennsylvania 19103

INTRODUCTION

This proxy statement is furnished in connection with the solicitation of proxies for use at the annual meeting of stockholders of Hemispherx Biopharma, Inc. ("Hemispherx", "we" or "us") to be held on Thursday, October 13, 2011, and at any adjournments. The accompanying proxy is solicited by the Board of Directors of Hemispherx and is revocable by the stockholder by notifying Hemispherx's Corporate Secretary at any time before it is voted, or by voting in person at the annual meeting. This proxy statement and the accompanying proxy are being distributed to stockholders beginning on September 16, 2011. The principal executive offices of Hemispherx are located at 1617 JFK Boulevard, Suite 660, Philadelphia, Pennsylvania 19103, telephone (215) 988-0080.

Important Notice Regarding the Availability of Proxy Materials for
the 2011 Annual Meeting of Stockholders To Be Held on October 13, 2011

This proxy statement, our 2010 Annual Report on Form 10-K and our June 30, 2011 Quarterly Report on Form 10-Q are available electronically at http://hemispherx.net/content/investor/annualmeeting.asp.

OUTSTANDING SHARES AND VOTING RIGHTS

RECORD DATE; OUTSTANDING SHARES

Only stockholders of record at the close of business on August 18, 2011, the record date, are entitled to receive notice of, and vote at the annual meeting. As of the record date, the number and class of stock outstanding and entitled to vote at the meeting was 135,506,870 shares of common stock, par value $.001 per share. Each share of common stock is entitled to one vote on all matters. No other class of securities will be entitled to vote at the meeting. There are no cumulative voting rights.

The five nominees receiving the highest number of votes cast by the holders of common stock represented and voting at the meeting will be elected as Hemispherx's Directors and constitute the entire Board of Directors of Hemispherx. The affirmative vote of at least a majority of the shares represented and voting at the annual meeting at which a quorum is present is necessary for approval of Proposals No. 2 and 3. The affirmative vote of at least a majority of the outstanding shares entitled to vote at the annual meeting at which a quorum is present is necessary for approval of Proposal No. 4.

Although the advisory vote on Proposal No. 3 is non-binding, as provided by law, our Compensation Committee will review the results of the votes and will take them into account in making a determination concerning executive compensation and the frequency of such advisory votes.

ADMISSION TO THE MEETING

Stockholders (or their authorized representatives) and our invited guests may attend the meeting. Verification of stock ownership will be required. If you own shares in your name or hold them through a broker (and can provide documentation showing ownership as of the end of day on August 18, 2011, the Record Date), you will be permitted to attend. Stockholders will be admitted to the meeting beginning at 9:30 a.m. EST on October 13, 2011. Seating is limited.

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REVOCABILITY OF PROXIES

If you attend the meeting, you may vote in person, regardless of whether you have submitted a proxy. Any person giving a proxy in the form accompanying this proxy statement has the power to revoke it at any time before it is voted. It may be revoked by filing, with the corporate Secretary of Hemispherx at its principal offices, 1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting and voting in person.

VOTING AND SOLICITATION

Every stockholder of record is entitled, for each share held, to one vote on each proposal or item that comes before the meeting. There are no cumulative voting rights. By submitting your proxy, you authorize William A. Carter and Thomas K. Equels and each of them to represent you and vote your shares at the meeting in accordance with your instructions. Messrs. Carter and Equels and each of them may also vote your shares to adjourn the meeting from time to time and will be authorized to vote your shares at any adjournment or postponement of the meeting.

Hemispherx has borne the cost of preparing, assembling and mailing this proxy solicitation material along with related communication with stockholders. The total cost estimated to be spent and the total expenditures to date for, in furtherance of, or in connection with the solicitation of stockholders is approximately $100,000. Hemispherx may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to beneficial owners. Proxies may be solicited by certain of Hemispherx's Directors, Officers and employees, without additional compensation, personally, by telephone or by facsimile.

We have hired the firm of Morrow & Company LLC to assist in the solicitation of proxies on behalf of the Board of Directors. Morrow & Company LLC has agreed to perform this service for a proposed fee of $9,000 plus out-of-pocket expenses.

Internet and Telephone Voting

If you have Internet access, you may submit your proxy from any location in the world by following the Internet voting instructions on the proxy card or voting instructions card sent to you. If you submit your proxy via the Internet, you should not return your proxy card.

You may submit your proxy by following the telephone voting instructions on the proxy card or voting instruction card sent to you. If you submit your proxy by telephone, you should not return your proxy card.

ADJOURNED MEETING

The Chair of the meeting may adjourn the meeting from time to time to reconvene at the same or some other time, date and place. Notice need not be given of any such adjournment meeting if the time, date and place thereof are announced at the meeting at which the adjournment is taken. If the time, date and place of the adjournment meeting are not announced at the meeting which the adjournment is taken, then the Secretary of the Company shall give written notice of the time, date and place of the adjournment meeting not less than ten (10) days prior to the date of the adjournment meeting. Notice of the adjournment meeting also shall be given if the meeting is adjourned in a single adjournment to a date more than 30 days or in successive adjournments to a date more than 120 days after the original date fixed for the meeting.

TABULATION OF VOTES

The votes will be tabulated and certified by Continental Stock Transfer & Trust Company, our transfer agent.

VOTING BY STREET NAME HOLDERS

If you are the beneficial owner of shares held in "street name" by a broker, the broker, as the record holder of the shares, is required to vote those shares in accordance with your instructions. If you do not give instructions to the broker, the broker will nevertheless be entitled to vote the shares with respect to "discretionary" items but will not be permitted to vote the shares with respect to "non-discretionary" items (in which case, the shares will be treated as "broker non-votes").

Pursuant to the New York Stock Exchange Amex ("NYSE Amex") Rule 452, brokers may not vote uninstructed shares if the matter to be voted on relates to the election of directors.

QUORUM; ABSTENTIONS; BROKER NON-VOTES

The required quorum for the transaction of business at the annual meeting normally is a majority of the shares of common stock entitled to vote at the annual meeting, in person or by proxy. However, with approximately 40% of our shares being held by persons or organizations in Europe, we had to repeatedly reschedule our 2008 Annual Meeting in an attempt to attain a quorum of voters. Finally, the Board amended our By-Laws to reduce the quorum for that meeting to 44% in voting power of the outstanding shares of stock and the meeting was held. Facing the same issue for the 2009 and 2010 Annual Meetings, our Board of Directors again amended our By-Laws to reduce the quorum, solely for that respective year's Annual Meeting, from a majority to 40% and 33 1/3%, respectively, in voting power of the outstanding shares of stock entitled to vote.

Our Board of Directors again amended our By-Laws to reduce the quorum, solely for the upcoming 2011 Annual Meeting, from a majority to 40% in voting power of the outstanding shares of stock entitled to vote. Shares that are voted "FOR," "AGAINST" or "WITHHELD FROM" a matter are treated as being present at the meeting for purposes of establishing a quorum and are also treated as shares represented and voting the votes cast at the annual meeting with respect to such matter.

While there is no definitive statutory or case law authority in Delaware as to the proper treatment of abstentions, Hemispherx believes that abstentions should be counted for purposes of determining both: (i) the presence or absence of a quorum for the transaction of business; and (ii) the total number of votes cast with respect to a proposal (other than the election of Directors). In the absence of controlling precedent to the contrary, Hemispherx intends to treat abstentions in this manner. Accordingly, abstentions will have the same effect as a vote against the proposal (other than the election of Directors).

Under current Delaware case law, broker non-votes should not be counted for purposes of determining the number of votes cast with respect to the particular proposal on which the broker has expressly not voted. Hemispherx intends to treat broker non-votes in this manner. Thus, a broker non-vote will not affect the outcome of the voting on a proposal, except where passage requires at least a majority of the outstanding shares entitled to vote at the annual meeting. In such event, a broker non-vote is the same as a vote against.

DEADLINE FOR RECEIPT OF STOCKHOLDER PROPOSALS

Proposals of stockholders to be considered for inclusion in the Proxy Statement and proxy card for the 2012 Annual Meeting of Stockholders must be received by the Company's Secretary, at Hemispherx Biopharma, Inc., 1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103 no later than May 31, 2012 with an anticipated meeting date in October 2012.

Pursuant to the Company's Restated and Amended Bylaws, all stockholder proposals may be brought before an annual meeting of stockholders only upon timely notice thereof, in writing, to the Secretary of the Company. To be timely, a stockholder's notice, for all stockholder proposals other than the nomination of candidates for director, shall be delivered to the Secretary at the principal executive offices of the Company not less than sixty (60) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, the stockholder's notice in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs. To be timely, a stockholder's notice, with respect to a stockholder proposal for nomination of candidates for director, shall be delivered to the Secretary at the principal executive offices of the Company not less than ninety (90) nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, the stockholder's notice in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs. Provided, however, in the event that the stockholder proposal relates to the nomination of candidates for director and the number of Directors to be elected to the Board of Directors of the Company at an annual meeting is increased and there is no public announcement by the Company naming all of the nominees for director or specifying the size of the increased Board of Directors at least one hundred days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Company not later than the close of business on the tenth day following the day on which such public announcement is first made by the Company. All stockholder proposals must contain all of the information required under the Company's Bylaws, a copy of which is available upon written request, at no charge, from the Secretary. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

INFORMATION CONCERNING BOARD MEETINGS

The Board of Directors is responsible for the management and direction of Hemispherx and for establishing broad corporate policies. A primary responsibility of the Board is to provide effective governance over the Company's affairs for the benefit of its stockholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be the best interests of the Company. In discharging that obligation, Directors may rely on the honesty and integrity of the Company's senior Executives and its outside advisors and auditors.

The Board of Directors and various committees of the Board meet periodically throughout the year to receive and discuss operating and financial reports presented by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as well as reports by experts and other advisors. Members of the Board are encouraged to attend Board meetings in person, unless the meeting is held by teleconference. The Board held four meetings in 2010 and executed nineteen unanimous consents. All Directors attended these meetings.

In 2010, the non-employee members of the Board of Directors met one time in executive session with no employee Directors or management personnel present. Dr. William Mitchell is the Director who presided over the meeting. Interested persons who wish to contact the Lead Director or other non-employee Directors can do so by sending written comments through the Office of the Secretary of the Company at Hemispherx Biopharma, Inc., 1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103. The Office will either forward the original materials as addressed, or provide Directors with summaries of the correspondence, with the originals available for review at the

Directors' request.

INFORMATION CONCERNING COMMITTEES OF THE BOARD

The Board of Directors maintains the following committees:

Executive Committee

The Executive Committee is composed of Dr. William A. Carter, Chief Executive Officer and Chairman of the Board, Dr. William M. Mitchell, Director, and Thomas K. Equels, Executive Vice Chairman of the Board, Secretary and General Counsel. The Executive Committee had four informal meetings in 2010. All Committee members attended these meetings. The Committee assists the Board by making recommendations to management regarding general business matters of Hemispherx.

Compensation Committee

The Compensation Committee is composed of Dr. Iraj Eqhbal Kiani, Director and Committee Chair, Dr. William M. Mitchell, Director, and Richard C. Piani, Director. For detailed information on the Compensation Committee and its responsibilities, please see “Compensation Discussion and Analysis” in “Compensation of Executive Officers” below.

Corporate Governance and Nomination Committee

In 2010, the Corporate Governance and Nomination Committee had one formal and three informal meetings and all members were present. The Corporate Governance and Nomination Committee consists of Dr. William M. Mitchell, Director and Committee Chair, Richard C. Piani, Director, and Dr. Iraj Eqhbal Kiani, Director. All of the members of the Committee meet the independence standards contained within the NYSE Amex Company Guide and the Hemispherx Corporate Governance Guidelines. The full text of the Corporate Governance and Nomination Committee Charter as well as the Corporate Governance Guidelines, as approved by the Board, are available on our website: www.hemispherx.net.

As discussed below, the Committee is responsible for recommending candidates to be nominated by the Board for election by the stockholders or to be appointed by the Board of Directors to fill vacancies consistent with the criteria approved by the Board. It also is responsible for periodically assessing Hemispherx’s Corporate Governance Guidelines and making recommendations to the Board for amendments, recommending to the Board the compensation of Directors, taking a leadership role in shaping corporate governance, and overseeing an annual evaluation of the Board.

The Corporate Governance and Nomination Committee is responsible for identifying candidates who are eligible under the qualification standards set forth in Hemispherx’s Corporate Governance Guidelines to serve as members of the Board. The Committee is authorized to retain search firms and other consultants to assist it in identifying candidates and fulfilling its other duties. The Committee is not limited to any specific process in identifying candidates and will consider candidates suggested by stockholders. In recommending Board candidates, the Committee considers a candidate’s: (1) general understanding of elements relevant to the success of a publicly traded company in the current business environment, (2) understanding of Hemispherx’s business, and (3) diversity in educational and professional background. The Committee also gives consideration to a candidate’s judgment, competence, dedication and anticipated participation in Board activities, experience, geographic location and special talents or personal attributes. Stockholders who wish to suggest qualified candidates should write to the Corporate Secretary, Hemispherx Biopharma, Inc., 1617 JKF Blvd., Suite 660, Philadelphia, PA 19103, stating in detail the qualifications of such persons for consideration by the Committee.

The Company aspires to the highest standards of ethical conduct; reporting results with accuracy and transparency; and maintaining full compliance with the laws, rules and regulations that govern the Company's business. Hemispherx's Corporate Governance Guidelines embody many of our policies and procedures which are the foundation of our commitment to best practices. The guidelines are reviewed annually, and revised if deemed necessary, to continue to reflect best practices.

Disclosure Control Committee

In August 2011, our Board formed the Disclosure Controls Committee ("DCC"). The DCC reports to the Audit Committee and is responsible for procedures and guidelines on managing disclosure information.

The purpose of the DCC is to make certain that information required to be publicly disclosed is properly accumulated, recorded, summarized and communicated to the Board and management. This process is intended to allow for timely decisions regarding communications and disclosures and to help ensure that we comply with related SEC rules and regulations. Robert Dickey, one of our senior Vice Presidents, is the DCC's Investor Relations Coordinator and Chairperson. The other members of the DCC are Thomas K. Equels, our General Counsel, Charles Bernhardt, our Chief Financial Officer, William A. Carter, our Chief Science Officer, William Mitchell, one of our Independent Directors. Nancy McGrory is the DCC's Deputy Investor Relations Coordinator.

Audit Committee and Audit Committee Expert

The Audit Committee of our Board of Directors consists of Richard Piani, Committee Chairman, William Mitchell, M.D. and Iraj Eqbal Kiani, N.D., Ph.D. Mr. Piani, Dr. Mitchell, and Dr. Kiani are all determined by the Board of Directors to be independent directors as required under Section 121B(2)(a) of the NYSE Amex Company Guide. We do not have a financial expert as defined in the SEC rules on the committee in the true sense of the description because we believe that Richard Piani, an existing director, has sufficient experience. Mr. Piani has 40 years experience in business and has served in senior level and leadership positions for international businesses. His working experience includes reviewing and analyzing financial statements and dealing with financial institutions. We believe Mr. Piani, Dr. Mitchell, and Dr. Kiani to be independent of Management and free of any relationship that would interfere with their exercise of independent judgment as members of this committee. The principal functions of the Audit Committee are to (i) assist the Board in fulfilling its oversight responsibility relating to the annual independent audit of our consolidated financial statements and internal control over financial reporting, the engagement of the independent registered public accounting firm and the evaluation of the independent registered public accounting firm's qualifications, independence and performance; (ii) prepare the reports or statements as may be required by NYSE Amex or the securities laws; (iii) assist the Board in fulfilling its oversight responsibility relating to the integrity of our financial statements and financial reporting process and our system of internal accounting and financial controls; (iv) discuss the financial statements and reports with Management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with Management; (v) oversight of the functionality related to the newly formed Disclosure Control Committee; and (vi) review disclosures by our independent registered public accounting firm concerning relationships with us and the performance of our independent accountants.

Audit Committee Report

The primary responsibility of the Audit Committee (the "Committee") is to assist the Board of Directors in discharging its oversight responsibilities with respect to financial matters and compliance with laws and regulations. The primary methods used by the Committee to fulfill its responsibility with respect to financial matters are:

- To appoint, evaluate, and as the Committee may deem appropriate, terminate and replace the Company's independent registered public accountants;
- To monitor the independence of the Company's independent registered public accountants;
- To determine the compensation of the Company's independent registered public accountants;
- To pre-approve any audit services, and any non-audit services permitted under applicable law, to be performed by the Company's independent registered public accountants;
- To review the Company's risk exposures, the adequacy of related controls and policies with respect to risk assessment and risk management;
- To monitor the integrity of the Company's financial reporting processes and systems of control regarding finance, accounting, legal compliance and information systems;
- To facilitate and maintain an open avenue of communication among the Board of Directors, Management and the Company's independent registered public accountants; and

- Oversight of the DCC to monitor their successful implementation of that Committee's Charter, policies and procedures.

The Audit Committee is composed of three Directors, and the Board has determined that each of those Directors is independent as that term is defined in Sections 121(B)(2)(a) of the NYSE Amex Company Guide.

The Committee met five times in 2010 and participated in four teleconferences. Each of the Audit Committee members was present in person or by teleconference for at least 75% of the meetings.

In discharging its responsibilities relating to internal controls, accounting and financial reporting policies and auditing practices, the Committee discussed with the Company's independent registered public accountants, McGladrey & Pullen, LLP, the overall scope and process for its audit. The Committee regularly meets with McGladrey & Pullen, LLP, with and without Management present, to discuss the results of its examinations, the evaluations of our internal controls and the overall quality of the Company's financial reporting.

The Committee also undertook all required discussions with McGladrey & Pullen, LLP during the 2010 fiscal year such matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended, and other standards of the Public Company Accounting Oversight Board, rules of the SEC and other applicable regulations. The Committee received from McGladrey & Pullen, LLP the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding McGladrey & Pullen, LLP's communications with the Audit Committee concerning independence and discussed with McGladrey & Pullen, LLP the independence of their firm.

The Committee has met and held discussions with Management. The Committee has reviewed and discussed with Management Hemispherx's audited consolidated financial statements as of and for the fiscal year ended December 31, 2010, as well as the internal control requirements of the Sarbanes-Oxley Act of 2002.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report for the year ended December 31, 2010.

This report is respectfully submitted by the members of the Audit Committee of the Board of Directors.
Richard C. Piani, Chairman
Dr. William M. Mitchell
Dr. Iraj Eqhbal Kiani

Strategic Planning Committee

The Strategic Planning Committee is composed of Dr. William A. Carter, Dr. William M. Mitchell, and Thomas K. Equels. The Committee met informally four times in 2010 and all committee members were in attendance. The Strategic Planning Committee makes recommendations to the Board of Directors of priorities in the application of Hemispherx's financial assets and human resources in the fields of research, marketing and manufacturing.

Board Leadership Structure and Role in Risk Oversight

The Board evaluates its leadership structure and role in risk oversight on a periodic basis. The Board determines what leadership structure it deems appropriate based on factors such as the experience of the applicable individuals, the current business environment of our Company and other relevant factors. As further discussed below, after considering these factors, the Board determined that continuing to combine the positions of Chairman of the Board and Chief Executive Officer ("CEO") is the appropriate leadership structure at this time.

The Board currently combines the role of Chairman of the Board with the role of CEO, coupled with a Lead Independent Director position to further strengthen the governance structure. The Board believes this provides an efficient and effective leadership model for our Company and leverages Dr. Carter's long tenure with us with his bio-pharmaceutical knowledge. The Board believes that combining the Chairman and CEO roles fosters clear accountability, effective decision-making and consistency in strategy.

Lead Independent Director. To mitigate the consolidation of these two leadership positions in one individual, the Board has established a strong, independent, clearly-defined Lead Independent Director role. Richard C. Piani is the Lead Independent Director. Mr. Piani has been a Director of the Company since 1995.

The Lead Independent Director presides at all meetings of the Board at which the Chairman is not present and serves as liaison between the Chairman and the Independent Directors; is involved in establishing the agendas for meetings of the Board of Directors, including the nature of information presented at such meetings; and has the authority to call meetings of the Independent Directors. In August 2011, the role of the Lead Independent Director was enhanced to include the following duties:

1. determining the appropriate schedule of Board meetings after consultation with the CEO, Chairman of the Board and other Board members, as necessary;
2. consulting with the CEO, Chairman of the Board and other Board members on the agenda for the Board along with oversee the preparation of the agenda;
3. assessing the quality, quantity and timeliness of the flow of information from the Company's Management to the Independent Directors to ensure that it is sufficient for the Independent Directors to satisfy their duties;
4. directing Management to include in the materials prepared for the Board any materials that the Lead Independent Director deems important;
5. coordinating with the Chairman of the Corporate Governance and Nomination Committee to oversee compliance with and implementation of the Company's corporate governance policies;
6. coordinating, approving the agenda for, and moderating executive sessions of the Board's Independent Directors, and acting as principal liaison between the Independent Directors and the Chairman of the Board and/or CEO on sensitive issues; and
7. assisting the Chairman of the Compensation Committee in his evaluation of the CEO's performance.

In addition and on an as needed basis, the Board of Directors holds executive sessions of the Independent Directors to assure effective independent oversight. In 2010, the three Independent Directors met in sessions related to the Audit, Compensation and Corporate Governance and Nomination Committees.

The Board is also responsible for oversight of our risk management practices while Management is responsible for the day-to-day risk management processes. Our Executive Management team evaluates enterprise risks and shares their assessment of such risks with the Audit Committee or the full Board for oversight. In addition, financial risks and our internal control environment are overseen by the Audit Committee and the Compensation Committee considers how risks taken by Management could impact the value of executive compensation.

Code of Ethics and Business Conduct

Hemispherx's Board of Directors adopted a code of ethics and business conduct for Officers, Directors and employees that went into effect on May 19, 2003 and was amended on October 15, 2009. This code has been presented and reviewed by each Officer, Director, employee, agent and key consultant. You may obtain a copy of this code by visiting our web site at www.hemispherx.net or by written request to our Office Administrator at 1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103. Our Board of Directors is required to approve any waivers of the code of ethics and business conduct for Directors or executive Officers and we are required to disclose any such waiver in a Current Report on Form 8-K within four business days.

Stock Ownership Guidelines

In April 2005, the Board of Directors adopted a set of stock ownership guidelines for Directors and Officers. The Board believes that Directors and Officers more effectively represent the interest of Hemispherx's stockholders if they are stockholders themselves. At this time, all of our Directors and Officers are stockholders and this guideline was adopted to assure that the present Directors and Officers continue to participate as well as future Directors and Officers. The full text of the Stock Ownership Guidelines, as approved by the Board, is available on our website: www.hemispherx.net.

Communication with the Board of Directors

Interested parties wishing to contact the Board of Directors of the Company may do so by writing to the following address: Board of Directors, c/o Thomas K. Equels, Corporate Secretary, 2601 S. Bayshore Dr., Suite #600, Miami, FL 33133. All letters received will be categorized and processed by the Corporate Counsel or Secretary, and then forwarded to the Company's Board of Directors.

Director Attendance at Annual Meetings of Stockholders

Directors are encouraged, but not required, to attend the Annual Meeting absent unusual circumstances, although we have no formal policy on the matter. The only Directors who attended the 2010 Annual Meeting were Dr. Carter and Mr. Equels.

INFORMATION CONCERNING EXECUTIVE OFFICERS

The following sets forth biographical information about Hemispherx's executive Officers and key personnel:

Name	Age	Position
William A. Carter, M.D.	73	Chairman of the Board, Chief Executive Officer and Chief Science Officer
Thomas K. Equels	59	Executive Vice Chairman of the Board, Secretary and General Counsel
Charles T. Bernhardt, CPA	50	Chief Financial Officer and Chief Accounting Officer
David R. Strayer, M.D.	65	Medical Director, Regulatory Affairs
Robert Dickey IV	55	Senior Vice President
Wayne Springate	40	Senior Vice President of Operations
Ralph C. Cavalli, Ph.D.	53	Vice President of Quality Control

For biographical information about William A. Carter, M.D and Thomas K. Equels, please see the discussion under the heading "Proposal No. 1 Election of Directors".

CHARLES T. BERNHARDT is a Certified Public Accountant who has served as our Chief Financial Officer and Chief Accounting Officer since January 1, 2009. He attained an undergraduate in Accountancy from Villanova University and received a Masters Degree in Business Administration from West Chester University of Pennsylvania. Mr. Bernhardt was formally the Director of Accounting for Healthcare Division of Thomson Reuters, where he was responsible for their accounting operations including the Physicians' Desk Reference business and shared financial services for the Healthcare and Scientific Divisions from 2006 to 2008. He was also the Regional Controller for Comcast Cable during 1999 to 2002, Director of Finance for TelAmerica Media from 2003 to 2006 and, earlier in his career, a member of the Internal Audit management teams of ICI Americas/Zeneca (currently AstraZeneca Pharmaceuticals) and American Stores Corporation. In 1986, he became a C.P.A. licensed in Pennsylvania and New Jersey while with public accounting's "Big Four" firm of KPMG.

DAVID R. STRAYER, M.D. has acted as our Medical Director since 1986. He has served as Professor of Medicine at the Medical College of Pennsylvania and Hahnemann University from 1987 to 1998. Dr. Strayer is Board Certified in Medical Oncology and Internal Medicine with research interests in the fields of cancer and immune system disorders. He has served as principal investigator in studies funded by the Leukemia Society of America, the American Cancer Society, and the National Institutes of Health. Dr. Strayer attended the School of Medicine at the University of California at Los Angeles where he received his M.D. in 1972.

ROBERT DICKEY IV has served as Senior Vice President since June 2009. He has approximately 15 years of experience in biotech management as a CFO, COO and CEO following a career as an investment banker. His experience spans startups to revenue stage companies involved in cancer and CNS drug development, transplantation and computational drug design. Mr. Dickey has specific expertise in fund raising, business development, project management, restructuring and international operations. Previously he spent 18 years as an investment banker, 14 of those at Lehman Brothers, with his background evenly split between M&A and capital markets transactions across a variety of industries. He has an undergraduate degree from Princeton University and an MBA from The Wharton School, University of Pennsylvania.

WAYNE S. SPRINGATE is Senior Vice President of Operations and joined Hemispherx in 2002 as Vice President of Business Development. Mr. Springate came on board when Hemispherx acquired Alferon N Injection® and its New Brunswick, NJ manufacturing facilities. He led the consolidation of our Rockville facility to our New Brunswick location as well as coordinated the relocation of manufacturing polymers from South Africa to our production facility in New Brunswick. He was also responsible for preparing and having a successful Preapproval Inspection by the FDA for our New Brunswick manufacturing plant in connection with the filing of our Ampligen® NDA. Currently he is managing a capital improvement budget to enhance our Alferon® facility in accordance with current Good Manufacturing Practice (“cGMP”). Previously, Mr. Springate served as President for World Fashion Concepts in New York and oversaw operations at several locations throughout the United States and overseas. Mr. Springate assists the CEO in details of operations on a daily basis and is involved in all aspects of manufacturing, warehouse management, distribution and logistics.

RALPH CHRISTOPHER CAVALLI, Ph.D. was named Vice President of Quality Control effective April 15, 2010. Dr. Cavalli most recently served as Director of Quality Control at the Company’s New Brunswick, NJ manufacturing facility. He is currently responsible for manufacturing Alferon® Purified Drug Concentrate and active pharmaceutical ingredients for Ampligen® along with overseeing our Quality Control (“QC”) Department to continue our Good Laboratory Practices and Good Manufacturing Practices. Prior to joining Hemispherx, Dr. Cavalli served as Senior Director of Manufacturing Operations at Cytogen Corporation from 2006 until 2009, where he was responsible for the manufacture of Cytogen’s three commercial products. From 1999 until 2006, he initially worked at Discovery Laboratories as Associate Director of Analytical Services and then ultimately as Senior Director of Analytical and Technical Services, for which he was responsible for Quality Control and Process Development. Dr Cavalli received a Ph.D. in Chemistry from Temple University in Philadelphia, PA.

RUSSEL J. LANDER, Ph.D. was our Vice President of Process and Analytical Development during 2010 and through July 15, 2011.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review, Approval or Ratification of Transactions with Related Persons

Our policy is to require that any transaction with a related party required to be reported under applicable Securities and Exchange Commission (“SEC”) rules, other than compensation related matters and waivers of our code of business conduct and ethics, be reviewed and approved or ratified by a majority of independent, disinterested Directors. We have adopted procedures in which the Audit Committee shall conduct an appropriate review of all related party transactions for potential conflict of interest situations on an annual and case-by-case basis with the approval of this Committee required for all such transactions.

We have employment agreements with certain of our executive Officers and have granted such Officers and Directors options and warrants to purchase our common stock, as discussed below under the heading, “Compensation of Executive Officers and Directors”.

Thomas K. Equels was elected to the Board of Directors at the Annual Stockholders Meeting on November 17, 2008, was named Co-General Counsel on May 15, 2009 and became sole General Counsel on January 1, 2010. Mr. Equels has provided external legal services to us for several years through May 31, 2010 and his firm continues to support the Company. For 2010, we paid Mr. Equels’ law firm $729,000 for services rendered. On June 11, 2010, Mr. Equels was appointed as Executive Vice Chairman of the Board in addition to his existing duties as Secretary and General Counsel.

For her part-time services to us as Assistant Medical Director Kati Kovari, M.D. was paid $26,000 in 2010. Dr. Kovari is the spouse of W. A. Carter, our CEO.

We paid Retreat House, LLC $123,200 in 2010 for the use of the property at various times for off-site meetings and lodging. The property in question was owned individually by Dr. William A. Carter through April 28, 2010, at which time it was transferred to Retreat House, LLC, a Virginia limited liability company that is owned by three of the children of William A. Carter and a Senior Primary Revocable Trust in which William A. Carter is the Trustee. Dr. Carter also is the Manager of Retreat House, LLC. It had been previously reported by the Company that Retreat House, LLC was an entity wholly owned by the five children of our CEO, William A. Carter and that Retreat House LLC was owner of the property since 2004; these statements were inaccurate.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Exchange Act requires our Officers and Directors, and persons who own more than ten percent of a registered class of equity securities, to file reports with the Securities and Exchange Commission reflecting their initial position of ownership on Form 3 and changes in ownership on Form 4 or Form 5. Based solely on a review of the copies of such Forms received by us, we found that, during the fiscal year ended December 31, 2010, certain of our Officers and Directors had not complied with all applicable Section 16(a) filing requirements on a timely basis with regard to transactions occurring in 2010. Specifically, Dr. Carter filed two Forms 4 late concerning his receipt of Options and one Form 4 late related to a donation of stock; Mr. Equels and Mr. Bernhardt each filed one Form 4 late concerning their receipt of Options; and Mr. Lander filed late an initial Form 3 and one Form 4 concerning five transactions.

COMPENSATION OF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

This discussion and analysis describes our executive compensation philosophy, process, plans and practices as they relate to our “Named Executive Officers” (“NEO”) listed below and gives the context for understanding and evaluating the more specific compensation information contained in the narratives, tables and related disclosures that follow:

- Dr. William A. Carter, Chief Executive Officer (“CEO”) and Chief Science Officer (“CSO”);
- Charles T. Bernhardt, Chief Financial Officer (“CFO”) & Chief Accounting Officer (“CAO”);
- Thomas K. Equels, General Counsel (effective June 1, 2010);
- Dr. David Strayer, Chief Medical Officer (“CMO”) and Medical Director;
- Robert Dickey, IV, Senior Vice President (“S.V.P.”);
- Russel J. Lander, former Vice President (“V.P.”) of Process and Analytical Development (during 2010 and 2011 until July 15, 2011); and
- Wayne S. Springate, Senior Vice President (“S.V.P.”) of Operations (effective May 1, 2011).

Overview of Our Business Environment

Hemispherx is a specialty pharmaceutical company based in Philadelphia, Pennsylvania and engaged in the clinical development of new drug therapies based on natural immune system enhancing technologies for the treatment of viral and immune based chronic disorders. We were founded in the early 1970s doing contract research for the National Institutes of Health. Since that time, we have established a strong foundation of laboratory, pre-clinical and clinical data with respect to the development of natural interferon and nucleic acids to enhance the natural antiviral defense system of the human body and to aid the development of therapeutic products for the treatment of certain chronic diseases.

Our current strategic focus is derived from four applications of our two core pharmaceutical technology platforms Ampligen® and Alferon N Injection®. The commercial focus for Ampligen® includes application as a treatment for Chronic Fatigue Syndrome (“CFS”) and as an influenza vaccine enhancer (adjuvant) for both therapeutic and preventative vaccine development. Alferon N Injection® is a FDA approved product for refractory or recurring genital warts. Alferon® LDO (Low Dose Oral) is a formulation currently under development targeting influenza. Two clinical studies have recently been initiated and are currently enrolling patients where Ampligen® is being tested as a vaccine adjuvant for the treatment of breast and ovarian cancers.

Governance

The Compensation Committee consists of the following three directors, each of whom is "independent" under applicable NYSE Amex rules, a "Non-Employee Director" as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and an "Outside Director" as defined under the treasury regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"): Dr. William Mitchell, M.D., Richard C. Piani, and Dr. Iraj E. Kiani, N.D. The Compensation Committee makes recommendations concerning salaries and compensation for senior management and other highly paid professionals or consultants to Hemispherx. The full text of the Compensation Committee Charter, as approved by the Board, is available on our website: www.hemispherx.net in the "Investor Relations" tab under "Corporate Governance". This Committee met one time in 2010 and all committee members were in attendance. Our Chief Financial Officer and the Director of Human Resources support the Compensation Committee in its work.

Process

Our Compensation Committee is responsible for determining the compensation of our NEO included in the "Summary Compensation Table" below. For purposes of determining compensation for our NEO, our Compensation Committee takes into account the recommendation of our Chief Executive Officer. The Compensation Committee is also responsible for overseeing our incentive compensation plans and equity-based plans, under which stock option grants have been made to employees, including the NEO, as well as non-employee Directors and strategic consultants.

The following table summarizes the roles of each of the key participants in the executive compensation decision-making process:

Compensation Committee	• Fulfills the Board of Directors' responsibilities relating to compensation of Hemispherx' NEO, other non-officer Executives and non-Executives. • Oversees implementation and administration of Hemispherx' compensation and employee benefits programs, including incentive compensation and equity compensation plans. • Reviews and approves Hemispherx' goals and objectives and, in light of these, evaluates each NEO's performance and sets his annual base salary, annual incentive opportunity, long-term incentive opportunity and any special/supplemental benefits or payments. • Reviews and approves compensation for all other non-officer Executives of Hemispherx including annual base salary, annual incentive opportunity, long-term incentive opportunity and any special/supplemental benefits or payments. • In consultation with the CEO and CFO, reviews the talent development process within Hemispherx to ensure it is effectively managed and sufficient to undertake successful succession planning. • Reviews and approves employment agreements, severance arrangements, issuances of equity compensation and change in control agreements.
Chairman and CEO	• Presents to the Compensation Committee the overall performance evaluation of, and compensation recommendations for, each of the NEO and other non-officer Executives.
CFO as well as Director of Human Resources	• Report directly or indirectly to the Chief Executive Officer. • Assist the Compensation Committee with the data for competitive pay and benchmarking purposes. • Review relevant market data and advises the Compensation Committee on interpretation of information, including cost of living statistics, within the framework of Hemispherx.

- Inform the Compensation Committee of regulatory developments and how these may affect Hemispherx' compensation program.

Objectives and Philosophy of Executive Compensation

The primary objectives of the Compensation Committee of our Board of Directors with respect to Executive compensation are to attract and retain the most talented and dedicated Executives possible, to tie annual and long-term cash and stock incentives to achievement of measurable performance objectives, and to align Executives' incentives with stockholder value creation. To achieve these objectives, the Compensation Committee expects to implement and maintain compensation plans that tie a substantial portion of Executives' overall compensation to key strategic financial and operational goals such as the establishment and maintenance of key strategic relationships, the development of our products, the identification and advancement of additional products and the performance of our common stock price. The Compensation Committee evaluates individual Executive performance with the goal of setting compensation at levels the Committee believes are comparable with Executives in other companies of similar size and stage of development operating in the biotechnology industry while taking into account our relative performance and our own strategic goals.

Use of Compensation Data

Our compensation plans are developed by utilizing publicly available compensation data for national and regional companies in the biopharmaceutical industry as well as web sites that specialize in compensation and/or employment data. We believe that the practices of this group of companies and/or data obtained from employment industry organizations, provide us with appropriate compensation benchmarks necessary to review the compensation recommendations by the CEO, CFO and/or Human Resources Department. While not utilized in 2009 or 2008 due to our maintaining Base Salary at existing levels with the exception of cost of living adjustments, in 2010 we utilized web based organizations and data bases to help us analyze compensation data and compare our programs with the practices of the similar national and/or regional companies represented in the biopharmaceutical industry.

Elements of Executive Compensation

The Compensation Committee has adopted a mix among the compensation elements in order to further our compensation goals. The elements include:

- Base salary (impacted by cost of living adjustments);
- Variable compensation consisting of a cash bonus based upon individual and corporate performance;
- Long-term bonus incentive programs consisting of the Goal Achievement Program and Employee Bonus Pool Program;
- Stock option grants with exercise prices set in excess of fair market value at the time of grant;
- Stock option grants that have expired for current employees are renewed for a ten year term at the same exercise price of the original option grants;
- Future non-executive employee compensation could include Company Common Stock, either restricted or unrestricted, up to the rate of 50% of their total Base Salary.

At our 2010 Annual Stockholder Meeting, we had on the ballot, for the first time, a non-binding resolution for stockholders to approve Elements of Executive Compensation. At that meeting, while approximately 43% of stockholders voting at the meeting voted to “Approve” and approximately 41% voted “Not To Approve” Executive Compensation, in taking into account the remaining “Abstentions” as the equivalent of Not To Approve votes, the stockholders effectively did not approve Executive Compensation.

The Compensation Committee reviewed the result of the vote on the non-binding resolution causing them to reflect on the various elements of the 2010 executive compensation program. While it remains the goal of the executive compensation program to support long-term value creation, the Committee moved to enhance the program to better align the compensation options with our stockholders’ interests in supporting long-term value creation. Accordingly, two elements have been added to the executive compensation plan:

- Stock option grants that have expired for current employees are renewed for a ten year term at the same exercise price of the original option grants, rather than at an exercise price related to the then current market price;

- Future non-executive employee compensation could include Company Common Stock, either restricted or unrestricted, up to the rate of 50% of their total Base Salary.

Executive compensation currently consists of the following elements:

Base Salary

Base salaries for our Executives are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions. Generally, we believe that Executive base salaries should be targeted near the median of the range of salaries for executives in similar positions with similar responsibilities at comparable companies, in line with our compensation philosophy. For those NEO with employment agreements, base salary is determined and set forth in the agreement and the Compensation Committee reviews the base salary prior to renewal of such agreement. Base salaries for the other NEO are normally reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. While this review process would normally occur in the fourth quarter of each year, it was not undertaken as a formal process during each of the years from 2008 through 2011 base salaries. However after analysis of overall Company compensation, the Committee authorized a non-discriminatory and universally applied cost of living increase to the base salaries of all full-time employees of record effective July 1, 2009, January 1, 2010 and December 31, 2010. In 2010, modifications were made to the Base Salary of NEO for which employment agreements were modified or renewed. Additional changes to our NEO’s base salaries could be undertaken in a future determination by the Compensation Committee at its discretion. In this regard, in June 2010, we entered into amended and restated agreements with Dr. Carter, and an employment agreement with Mr. Equels, pursuant to which, Mr. Equels acts as our General Counsel, Secretary and Executive Vice Chairman of the Board of Directors. These employment agreements were further amended in July 2010. Additionally, Mr. Dickey’s employment agreement was amended in February 2010 and renewed in September 2010, and Mr. Bernhardt entered into an employment agreement in December 2010 as our Chief Financial Officer and Chief Accounting Officer. Mr. Springate’s employment agreement was revised and renewed effective May 1, 2011 with no effective change to his Base Salary.

Annual Bonus

Our compensation program includes eligibility for an annual performance-based cash bonus in the case of all NEO and certain senior, non-officer Executives. The amount of the cash bonus depends on the level of achievement of the stated corporate, department, and individual performance goals, with a target bonus generally set as a percentage of base salary. As provided in their respective employment agreement, during the year ended December 31, 2010, the following NEO were eligible for an annual performance bonus based of their salaries, the amount of which, if any, is determined by the Board of Directors in its sole discretion based on the recommendation of the Compensation Committee:

- Dr. William Carter, Chairman, CEO and Chief Science Officer (bonus opportunity up to 25%);
- Thomas Equels, General Counsel, Secretary and Executive Vice Chairman of the Board (bonus opportunity up to 25%);
- Charles Bernhardt, Chief Financial Officer and Chief Accounting Officer (bonus opportunity up to 25%); and
- Wayne Springate, Senior V.P. of Operations (bonus opportunity up to 20% for 2010 and 25% for 2011).

The Compensation Committee utilizes annual incentive bonuses to compensate NEO and certain senior, non-officer executives (the “Executive Team”) for attainment or success towards overall corporate financial and/or operational goals along with achieving individual annual performance objectives. These objectives will vary depending on the individual Executive, but generally relate to strategic factors such as establishment and/or maintenance of key strategic relationships, development of our products, identification, research and/or development of additional products, enhancing financial factors such as raising capital, cost containment and/or improving the results of operations. The Compensation Committee, in light of established individual and Company-wide goals and objectives, evaluated the performance of each NEO, key executive and consultant in order to determine each respective annual incentive opportunity included an analysis by the Compensation Committee that provides the following information:

1. The Company-wide goals & objectives along with individual performance goals for each NEO used to determine annual bonuses for the fiscal year;
2. How each goal individually or in totality was weighted, if applicable, to the extent that any of the performance goals were quantitative and/or quantitative measurable;
3. The threshold, target, and maximum levels of achievement of each performance goal, if applicable;
4. The intended relationship between the level of achievement of Company-wide performance goals and the amount of bonus to be awarded;
5. The intended relationship between the level of achievement of each NEO's individual performance goals and the amount of bonus to be awarded;
6. The evaluation by the Committee of the level of achievement by each NEO of the Company-wide and individual performance goals applicable to him individually;
7. If applicable, whether the Committee reviewed any report(s) from compensation consultant(s);
8. How this level of achievement translated into the actual bonuses awarded for the 2010 fiscal year;
9. The adequate disclosure of the percentage of base salary awarded in the form of an incentive bonus to each NEO as a result of their or the Company's performance; and
10. If applicable, how the Company's compensation policies and practices relate to the Company's risk management.

The Compensation Committee also undertook the initial steps to establish goals and objectives for the Executive Team regarding possible bonuses for the year ending December 31, 2010. On an overall basis, all bonus eligible member of the Executive Team would share the following Company-wide goals:

A. Continued productive interaction with the FDA concerning issues necessary for approval of Ampligen® for CFS;
B. FDA approval of Ampligen® for CFS and/or confirmatory clinical study;
C. Continued productive interaction with the FDA concerning issues necessary for approval of Ampligen® for CFS and/or confirmatory clinical;
D. The start of confirmatory clinical trial for CFS as necessary towards obtaining FDA approval;
E. A country by country strategic plan for Ampligen® to be submitted and approved by the Board;
F. An overall strategic plan for marketing and partners for Ampligen® and Alferon® to be submitted to the Board;
G. An overall strategic plans for the marketing and partners for Alferon® to be submitted to the Board;
H. Continued development of microbiological enhancement of vaccines requiring Ampligen®;
I. Success in the protection of Company Intellectual Property;
J. Continued development of Alferon® LDO;
K. Continued development of Ampligen® for flu;
L. Maintaining the overall financial strength of the Company and operations consistent with the budget; and
M. Implementation of research & development partnerships.

On a specific employee basis, each bonus eligible member of the Executive Team would be judged on his/her success as to meeting or exceeding elements of his/her specific job duties. This would be accomplished by a year-end process, and at the sole discretion of the Compensation Committee and with input from the Chief Executive Officer or the Executive's direct supervisor, the Committee would evaluate the individual performance of each member of the Executive Team as to his/her achievement and/or contribution towards meeting the overall Company-wide goals along with his/her accomplishments specific to his/her job description. The outcome of the Committee's analysis would be utilized to determine if a bonus was warranted, and if so, the dollar amount or percentage of the Executive Team member's year-end base pay rate to be awarded.

Prior to year-end or during the first fiscal quarter of the subsequent year, the Compensation Committee would complete their analysis utilizing any internal and external documentation desired, including but not limited to reports from independent analysts and/or corporate benchmarking organizations. Upon analysis completion, the Compensation Committee made formal recommendations to the Board based on their findings with regard to bonuses for the respective year ended. Due to the subjective nature of the Company-wide goals regarding the success and analysis of an Executive in meeting or exceeding elements of his/her specific job duties, the goals were not designed to be weighted in value or quantitative in nature. The bonuses were designed to be awarded based on a subjective cumulate nature of the goals deemed attainable, employee performance and progress towards achievement. The bonus threshold was designed to range from zero percent to twenty-five percent, with a target bonus of approximately twenty or twenty-five percent, calculated from the individual’s year-end base pay rate.

In December 2010, the Compensation Committee reviewed the Executive Team’s Company-wide goals as detailed in the Committee’s Meeting Minutes of March and May 2010 and specific goals documented in each individual’s job description. The Committee believed that the Executive Team had excelled in meeting their goals and responsibilities as documented in each individual’s job description as well as made significant progress in meeting corporate goals with outstanding success.

Specifically, with regards to the NEO, the Compensation Committee determined that these Executives had demonstrated sufficient progress or exceeded expectations related to the following established goals described above and designated by the letters “A” through “M”:

a) Dr. William Carter, Chairman, CEO & CSO: Goals “A”, “C”, “E”, “F”, “G”, “H”, “I”, “J”, “K”, “L” and “M
b) Thomas Equels, General Counsel: Goals “E”, “F”, “G”, “I”, “L” and “M”;
c) Charles Bernhardt, CFO & CAO: Goals “E”, “F”, “G”, “I”, “J”, “L” and “M”;
d) Dr. David Strayer, Medical Director: Goals “A”, “C”, “E”, “F”, “G”, “H”, “I”, “J”, and “K”;
e) Russel Lander, former V.P. of Process and Analytical Development: “A”, “C”, “G”, “I”, “J”, and “K”; and
f) Wayne Springate, Sr. V.P. of Operations: Goals “E”, “F”, “G”, “H”, “I”, “J”, “K”, and “L”.

For their achievements identified above, on December 22, 2010 the Compensation Committee awarded each of the identified NEO with a performance bonus of twenty percent of their respective base salary rate at year-end 2010.

For what the Compensation Committee designated as unusual meritorious service during the year, they awarded the following NEO with an extra five percent performance bonus of their respective base salary rate at year-end 2010:

1. Dr. William Carter, related to his development of strategic plans for the Company, obtaining product testing, marketing and sales partnership agreements, issuance of new U.S. Patents for Ampligen® and spearheading the successful raising of new capital through the At The Market stock program;
2. Charles Bernhardt, related to his outstanding service as Chief Financial Officer in completing SEC filings, controlling the Company’s cash burn rate and enforcing budgetary requirements; and
3. Thomas Equels, related to his work and efforts towards settling the various class action suits and judgment against Johannesburg Consolidated Investments (“JCI”) and former JCI officers R.B. Kebble and H.C. Buitendag.

In addition to the 2010 year-end performance bonus, on December 3, 2010, our Board approved the recommendations of the Compensation Committee and awarded a deferred bonus to Thomas Equels for his services as legal counsel to the Company from 2008 to June 2010, when he became an employee of the Company, in the amount of $150,000. In recommending this bonus, the Compensation Committee cited among his many accomplishments Mr. Equels’ successful judgment in Federal District Court of approximately $188 million against JCI/Bioclones and his instrumental involvement in settling the Class Action Security litigation suit for an amount covered by the Directors and Officers Insurance, including legal fees.

On March 3, 2011, our Compensation Committee awarded an extraordinary bonus to Charles Bernhardt for his success in financial management and regulatory compliance efforts during the first quarter of 2011. In recommending this bonus for $25,000, the Compensation Committee cited among his many accomplishments, that Mr. Bernhardt had successfully completed numerous filings for the Security and Exchange Commission.

Employee Appraisal And Merit Bonus Program

For the year ending 2010, the Compensation Committee initiated an Employee Appraisal and Merit Bonus Program for those employees not eligible for the key employee Annual Bonus. This Program incorporates a team concept by conducting appraisals for eligible employees in each department throughout the calendar year and then averaging the total scores per department in order to determine a year-end, department-wide merit bonuses. Like with all Company bonus programs, the Program is annually renewed and at the ultimate discretion of the Compensation Committee based on various factors, including the Company's overall accomplishment of milestones and access to Working Capital. For the year-ended December 31, 2010, the average employee bonus from this Program was 3.4% of the respective employee's year-end Base Salary.

Long-Term Bonus Incentive Programs

The Compensation Committee believes that team oriented performance by our NEO, non-officer Executive officers and all employees, consistent with our short and long-term goals, can be achieved through the use of goal or result oriented bonus programs. Accordingly, two programs have been established to provide our employees, including our NEO and certain senior, non-officer Executives, with incentives to help align their financial interests with that of Hemispherx and its stockholders. One program terminated in March 2010 and the other is ongoing.

Goal Achievement Incentive Program

On November 17, 2008 the Board of Directors authorized the Goal Achievement Incentive Program. This program is designed to intensify the efforts of the parties involved in securing strategic partnering agreements with third parties. We will pay the parties participating in the Program an incentive bonus for each timely agreement (as defined below) entered into by us with any and all third parties in which we receive cash (as defined below) from such third parties as a result of the execution of such agreements ("Strategic Partnering Agreements"), provided, however, Strategic Partnering Agreements shall not include agreements whereby we receive cash as a result of (i) only the sale of Ampligen® or other Hemispherx products, (ii) our only being reimbursed for expenses, not including expenses for prior research conducted by us, incurred by us, (iii) an agreement in which the only economic benefit to us is one or more loans, and (iv) an agreement, other than an agreement which results in a change of control of Hemispherx, in which the only economic benefit to us is the sale of our equity or other securities. The incentive bonus shall be in an amount equal to one percent (1%) of the amount of all cash received by us pursuant to each such Strategic Partnering Agreement between the dates of the execution of each such Strategic Partnering Agreement and the first commercial sale of Ampligen® following the full commercial approval of the sale of Ampligen® in each jurisdiction. All incentive bonus payments shall be payable in readily available funds within ten (10) days following receipt by us of readily available funds as a result of our receipt of such first cash. For purposes hereof "timely agreements" means all agreements entered into by us with any and all third parties (a) on or before June 30, 2009 and (b) on or before March 31, 2010 with third parties with which we had been in active negotiations on or before June 30, 2009. For purposes hereof "cash" means any asset which is either (a) readily available funds or (b) capable of being converted into readily available funds in value equal to the value ascribed to such asset in the Strategic Partnering Agreement within six months of the receipt of such asset by Hemispherx. This program presently includes Dr. William Carter, CEO, Dr. Chaunce Bogard, strategic consultant, The Sage Group (strategic advisor firm), Anthony Bonelli, our former President and Chief Operating Officer, Dr. David R. Strayer, Medical Director and all of our active full-time employees as of January 1, 2009.

From its inception through its March 31, 2010 expiration, Hemispherx paid no compensation related to the Goal Achievement Incentive Program.

Employee Bonus Pool Program

An element of the Employee Wage Or Hours Reduction Program was the establishment of a Bonus Pool (the "Pool") in the case of FDA Approval ("Approval") of Ampligen®. This bonus is to award to each employee of record at January 1, 2009 a pretax sum of 30% in wages, calculated on their base salary per annum compensation at the time of the Approval, and awarded within three months of Approval. Participants who terminate their employment prior to the Approval will not qualify for this bonus.

From the inception through the year ending 2010, Hemispherx paid no compensation related to the Employee Bonus Pool Program.

Stock Options

The Compensation Committee believes that long-term performance is achieved through an ownership culture that encourages such performance by our NEO, non-officer Executives and all employees through the use of stock and stock-based awards. Our stock plans have been established to provide our employees, including our NEO and senior non-officer Executives, with incentives to help align their interests with the interests of stockholders. Accordingly, the Compensation Committee believes that the use of stock and stock-based awards offers the best approach to achieving long-term performance goals because:

- Stock options align the interests of Executives and employees with those of the stockholders, support a pay-for-performance culture, foster employee stock ownership, and focus the management team on increasing value for the stockholders;
- Stock options are performance based. All the value received by the recipient of a stock option is based on the growth of the stock price; and
- Stock options help to provide a balance to the overall executive compensation program as base salary and our discretionary annual bonus program focus on short-term compensation.

We have historically elected to use stock options as the primary long-term equity incentive vehicle and expect to continue to use stock options as a long-term incentive vehicle. We have adopted stock ownership guidelines and our stock compensation plans have provided the principal method, other than through direct investment for our executive Officers to acquire equity in our Company. The Compensation Committee believes that the annual aggregate value of these awards should be set near competitive median levels for comparable companies. However, in the early stage of our business, we provided a greater portion of total compensation to our Executives through our stock compensation plans than through cash-based compensation.

In determining the number of stock options to be granted to NEO, non-officer Executives and employees, we take into account the individual's position, scope of responsibility, ability to affect profits and stockholder value and the individual's historic and recent performance and the value of stock options in relation to other elements of the individual's total compensation.

In determining the exercise price to be established for each stock option issued, this form of compensation is aligned with our stockholders' interests as an incentive vehicle tied into the growth of the stock price. This incentive is undertaken through establishing stock option exercise prices that are:

- In excess of fair market value at the time of grant;
- In the case of stock option grants that have expired for current employees, renewal of them for a ten year term at the same exercise price of the original option grants.

Our stock plans authorize us to grant options to purchase shares of common stock to our NEO, employees, Directors and consultants. Our Compensation Committee oversees the administration of our stock option plan. The Compensation Committee reviews and recommends approval by our Board of Directors of stock option awards to NEO based upon a review of competitive compensation data, its assessment of individual performance, a review of each Executive's existing long-term incentives and retention considerations. Periodic stock option grants are made at the discretion of the Board of Directors upon recommendation of the Compensation Committee to eligible NEO and employees and, in appropriate circumstances, the Compensation Committee considers the recommendations of the CEO.

On June 11, 2010, we granted options to purchase shares of our common stock at an exercise price of $0.66 per share, or 110% of the $0.60 closing price of the stock on the NYSE Amex as of June 10, 2010, to the following NEO consistent with their respective employment agreements:

- William A. Carter, CEO and CSO for 500,000 shares with immediate vesting; and

- Thomas K. Equels, General Counsel for 300,000 shares with immediate vesting.

On December 6, 2010, we granted options to purchase 100,000 shares of our common stock at an exercise price of $0.55 per share, or 110% of the $0.50 closing price of the stock on the NYSE Amex as of December 3, 2010, to Charles T. Bernhardt, Chief Financial Officer and Chief Accounting Officer consistent with his employment agreement.

On December 22, 2010, we granted ten year options to purchase 73,728 shares of our common stock at an exercise price of $2.71 per share, to replace