

HEMISPHERX BIOPHARMA INC
Form 10-Q
August 09, 2007

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

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

For the Quarterly Period Ended June 30, 2007
Commission File Number: 0-27072

HEMISPHERx BIOPHARMA, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-0845822
(I.R.S. Employer
Identification No.)

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

72,826,971 shares of common stock were issued and outstanding as of August 7, 2007.

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

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2006	June 30, 2007 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,646	\$ 6,989
Short term investments (Note 4)	18,375	14,670
Inventory, net	957	598
Accounts and other receivables, net of reserves of \$1 and \$1, respectively	93	83
Prepaid expenses and other current assets	168	159
Total current assets	23,239	22,499
Property and equipment, net	4,720	4,672
Patent and trademark rights, net	857	885
Construction in progress	624	896
Royalty interest	601	573
Deferred financing costs	38	-
Advance receivable (Note 5)	1,300	-
Other assets	52	52
Total assets	\$ 31,431	\$ 29,577
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,548	\$ 1,733
Accrued expenses	1,261	1,123
Current portion of long-term debt (Note 5)	3,871	-
Total current liabilities	6,680	2,856
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, authorized 5,000,000; issued and outstanding; none	-	-
Common stock, par value \$0.01 per share, authorized 200,000,000 shares; issued and outstanding 66,816,764 and 72,723,813 respectively	67	73
Additional paid-in capital	191,689	202,408
Accumulated other comprehensive income	46	316
Accumulated deficit	(167,051)	(176,076)
Total stockholders' equity	24,751	26,721

Total liabilities and stockholders' equity	\$	31,431	\$	29,577
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See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,	
	2006	2007
Revenues:		
Sales of product net	\$ 197	\$ 196
Clinical treatment programs	50	38
Total revenues	247	234
Costs and expenses:		
Production/cost of goods sold	398	315
Research and development	2,588	2,534
General and administrative	2,086	1,543
Total costs and expenses	5,072	4,392
Interest and other income	205	416
Interest expense	(326)	(44)
Financing costs (Note 5)	(135)	(139)
Net loss	\$ (5,081)	\$ (3,925)
Basic and diluted loss per share (Note 2)	\$ (.08)	\$ (.05)
Weighted average shares outstanding, basic and diluted	64,033,333	72,192,229

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2006	2007
Revenues:		
Sales of product net	\$ 380	\$ 416
Clinical treatment programs	103	73
Total revenues	483	489
Costs and expenses:		
Production/cost of goods sold	697	551
Research and development	5,018	5,710
General and administrative	5,178	3,326
Total costs and expenses	10,893	9,587
Interest and other income	160	465
Interest expense	(410)	(115)
Financing costs (Note 5)	(340)	(277)
Net loss	\$ (11,000)	\$ (9,025)
Basic and diluted loss per share (Note 2)	\$ (.18)	\$ (.13)
Weighted average shares outstanding, basic and diluted	60,132,309	70,518,087

See accompanying notes to consolidated financial statements.

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES**Consolidated Statements of Changes in Stockholders' Equity and Comprehensive loss**

(in thousands except share data)

(Unaudited)

	Common stock shares	Common Stock \$.001 Par Value	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' equity
Balance at December 31, 2006	66,816,764	\$ 67	\$ 191,689	\$ 46	\$(167,051)	\$ 24,751
Interest payments	64,769	-	124	-	-	124
Private placement, net of issuance costs	5,750,530	6	10,264	-	-	10,270
Stock issued for settlement of accounts payable	91,750	-	167	-	-	167
Equity based compensation	-	-	164	-	-	164
Net comprehensive income (loss)	-	-	-	270	(9,025)	(8,755)
Balance at June 30, 2007	72,723,813	\$ 73	\$ 202,408	\$ 316	\$(176,076)	\$ 26,721

See accompanying notes to consolidated financial statements.

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

For the Six Months Ended June 30, 2006 and 2007

(in thousands)

(Unaudited)

	2006	2007
Cash flows from operating activities:		
Net loss	\$ (11,000)	\$ (9,025)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	70	123
Amortization of patent and trademark rights, and royalty interest	56	83
Financing cost related to debt discounts	340	277
Equity based compensation	2,263	164
Common stock issued in payment of interest expense	101	115
Changes in assets and liabilities:		
Inventory	497	359
Accounts and other receivables	(93)	(154)
Prepaid expenses and other current assets	26	9
Accounts payable	937	353
Accrued expenses	484	(139)
Net cash used in operating activities	\$ (6,319)	\$ (7,835)
Cash flows from investing activities:		
Purchase of property plant and equipment	\$ (1,508)	\$ (75)
Additions to patent and trademark rights	(36)	(82)
Maturity of short term investments	12,548	6,778
Purchase of short term investments	(18,884)	(2,803)
Construction in Progress	275	(272)
Net cash (used in) provided by investing activities	\$ (7,605)	\$ 3,546

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
For the Six Months Ended June 30, 2006 and 2007
(in thousands)
(Unaudited)

	2006	2007
Cash flows from financing activities:		
Payment of long-term debt	\$ -	\$ (4,102)
Collection of advance receivable	-	1,464
Proceeds from exercise of stock warrants	672	-
Proceeds from sale of stock, net of issuance costs	11,980	10,270
Net cash provided by financing activities	\$ 12,652	\$ 7,632
Net (decrease) increase in cash and cash equivalents	(1,272)	3,343
Cash and cash equivalents at beginning of period	3,827	3,646
Cash and cash equivalents at end of period	\$ 2,555	\$ 6,989
Supplemental disclosures of non-cash investing and financing cash flow information:		
Issuance of common stock for accounts payable and accrued expenses	\$ 146	\$ 167
Issuance of common stock for debt conversion and debt payments	\$ 834	\$ -
Unrealized gains on investments	\$ 79	\$ 316

See accompanying notes to consolidated financial statements.

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

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the financial statements of Hemispherx Biopharma, Inc. and its wholly-owned subsidiaries. The Company has three domestic subsidiaries BioPro Corp., BioAegean Corp. and Core Biotech Corp., all of which are incorporated in Delaware and are dormant. The Company's foreign subsidiary, Hemispherx Biopharma Europe N.V./S.A., established in Belgium in 1998, has limited or no activity. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

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

NOTE 2: NET LOSS PER SHARE

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares, consisting of stock options and warrants including the Company's convertible debentures, which amounted to 30,005,360 and 17,530,415 shares, are excluded from the calculation of diluted net loss per share for the six months ended June 30, 2006 and 2007, respectively, since their effect is antidilutive.

NOTE 3: EQUITY BASED COMPENSATION

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company's stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The fair values of the options granted, were estimated based on the following weighted average assumptions:

	Six Months Ended June 30,	
	2006	2007
Risk-free interest rate	4.3% - 4.6%	4.46 - 4.90%
Expected dividend yield	-	-
Expected lives	2.5-5 yrs	5 yrs
Expected volatility	72.1%-79.3%	76.74 - 77.57%
Weighted average grant date fair value of options and warrants issued	\$2,503,000	\$140,037

Stock option activity during the six months ended June 30, 2007, is as follows:

Stock option activity for employees:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2006	2,001,969	\$ 2.51	8.01	
Options granted	64,120	2.14	9.50	
Options forfeited	(411)	-	-	
Outstanding June 30, 2007	2,065,678	2.50	7.85	-
Exercisable June 30, 2007	1,951,692	2.52	8.45	-

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2007 was \$123,202.

Unvested stock option activity for employees:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2006	113,986	\$ 2.26	9.05	
Options granted	-	-	-	
Options forfeited	-	-	-	-
Outstanding June 30, 2007	113,986	\$ 2.26	8.80	-

Stock option activity for non-employees:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2006	1,326,732	\$ 2.63	8.18	
Options granted	33,750	\$ 2.37	9.50	
Options forfeited	-	-	-	
Outstanding June 30, 2007	1,360,482	\$ 2.63	7.95	-
Exercisable June 30, 2007	1,323,382	\$ 2.64	8.35	-

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2007 was \$97,870.

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2006	37,100	\$ 2.28	9.81	
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Outstanding June 30, 2007	37,100	\$ 2.28	9.56	-

The impact on the Company's results of operations of recording equity based compensation for the six months ended June 30, 2007 was to increase general and administrative expenses by approximately \$164,000 and reduce earnings per share by \$0.00 per basic and diluted share.

As of June 30, 2007, there was \$79,000 of unrecognized equity based compensation cost related to options granted under the Equity Incentive Plan.

Note 4: SHORT TERM INVESTMENTS

Securities classified as available for sale consisted of:

Name of Security	June 30, 2007		Unrealized Gain (Loss)	Maturity Date
	Cost	Market Value		
General Electric Cap Corp	\$ 1,240,000	\$ 1,275,000	\$ 35,000	July, 2007
General Electric Cap Serv	1,202,000	1,233,000	31,000	September, 2007
HSBC Finance	1,000,000	1,028,000	28,000	August, 2007
FHLMC	1,051,000	1,078,000		