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

FORM 10-K/A-2
SECURITIES AND EXCHANGE COMMISSION
|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
OR
|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No. 1-13441

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

Delaware	52-0845822
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1617 JFK Boulevard Philadelphia, Pennsylvania (Address of principal executive offices)	19103 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.001 par value

Securities registered pursuant to Section 12(g) of the Act:

(Title of Each Class)
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes |_| No |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes |_| No |X|

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes |X| 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|X| Non-accelerated filer |_|

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

The aggregate market value of Common Stock held by non-affiliates at June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was $91,919,360.

The number of shares of the registrant's Common Stock outstanding as of July 12, 2006 was 62,299,252.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Explanatory Note

This second amendment on Form 10-K/A amends our amended annual report for the fiscal year ended December 31, 2005 originally filed with the Securities and Exchange Commission ("SEC")on June 5, 2006 (the "Form 10-K/A"). Primarily, we are filing this second amendment to correct disclosure in Note 19 - Quarterly Results of Operations (unaudited), to the financial statements with regard to deemed dividends recorded in the quarterly periods ended in June and September 2004.

No attempt has been made in this Form 10-K/A-2 to modify or update disclosures in the Form 10-K/A except as required to address the above issue and certain other issues noted below. This Form 10-K/A-2 does not reflect events occurring after the filing of the Form 10-K/A or modify or update any related disclosures. Information not affected by the amendment is unchanged and reflects the disclosure made at the time of the filing of the Form 10-K/A with the SEC. Accordingly, this Form 10-K/A-2 should be read in conjunction with the Form 10-K/A and our filings made with the SEC subsequent to the filing of the Form 10-K/A, including any amendments to those filings.

In accordance with Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended, the complete texts of Part II, Item 8; Part III, Items 10 -15; and Part IV, Item 15 are set forth herein, including those portions of the text that have not been amended from that set forth in the Form 10-K/A. The only changes to the text from the Form 10-K/A are as follows:

Part II

Item 8. Financial Statements and Supplementary Data.

- Note 19 to the financial statements (located at the end of this 10-K/A-2) has been revised.

Part III

Item 10. Directors and Executive Officers of the Registrant.

- The subsection "Audit Committee and Audit Committee Expert" has been revised.

Item 11. Executive Compensation.

- The table that sets forth certain information regarding stock options and warrants granted during 2005 to the executive officers named in the Summary Compensation Table (page zz hereof) has been revised.

- Footnote 6 to the "Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option/Warrant Value" table has been revised.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

- Footnote 3 to the Principal Stockholders table has been revised.

Item 13. Certain Relationships and Related Transactions.

- Disclosure concerning Antoni Esteve, one of our former directors, was corrected to reflect that he no longer is a Member of the Executive Committee.

ITEM 14. Principal Accounting Fees and Services.

- The disclosure has been revised to correct audit fees paid to BDO Seidman, LLP.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

- Updated certifications from our Chief Executive Officer and Chief Financial Officer are attached as Exhibits 31.1, 31.2, 32.1, and 32.2.

ITEM 8. Financial Statements and Supplementary Data.

The consolidated balance sheets as of December 31, 2004 and 2005, and our consolidated statements of operations, changes in stockholders' equity and comprehensive loss and cash flows for each of the years in the three year period ended December 31, 2005, together with the report of BDO Seidman, LLP, independent registered public accountants, are included at the end of this report. Reference is made to the "Index to Financial Statements and Financial Statement Schedule" on page F-1.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following sets forth biographical information about each of our directors and executive officers as of the date of this report:

Name	Age	Position
William A. Carter, M.D.	68	Chairman, Chief Executive Officer
R. Douglas Hulse	62	President
Robert E. Peterson	69	Chief Financial Officer
David R. Strayer, M.D.	60	Medical Director, Regulatory Affairs

Mei-June Liao, Ph.D.	55	Vice President of Regulatory Affairs, Quality Control and Research and Development
Robert Hansen	62	Vice President of Manufacturing
Carol A. Smith, Ph.D.	56	Director of Process Development
Richard C. Piani	79	Director
William M. Mitchell, M.D.	71	Director
Ransom W. Etheridge	66	Director, Secretary and General Counsel
Steven D. Spence	46	Director
Iraj Eqhbal Kiani, Ph.D.	60	Director

Each director has been elected to serve until the next annual meeting of stockholders, or until his earlier resignation, removal from office, death or incapacity. Each executive officer serves at the discretion of the Board of Directors, subject to rights, if any, under contracts of employment.

WILLIAM A. CARTER, M.D., the co-inventor of Ampligen(R), joined us in 1978, and has served as: (a) our Chief Scientific Officer since May 1989; (b) the Chairman of our Board of Directors since January 1992; (c) our Chief Executive Officer since July 1993; (d) our President since April, 1995; and (e) a director since 1987. From 1987 to 1988, Dr. Carter served as our Chairman. Dr. Carter was a leading innovator in the development of human interferon for a variety of treatment indications including various viral diseases and cancer. Dr. Carter received the first FDA approval to initiate clinical trials on a beta interferon product manufactured in the U.S. under his supervision. From 1985 to October 1988, Dr. Carter served as our Chief Executive Officer and Chief Scientist. He received his M.D. degree from Duke University and underwent his post-doctoral training at the National Institutes of Health and Johns Hopkins University. Dr. Carter also served as Professor of Neoplastic Diseases at Hahnemann Medical University, a position he held from 1980 to 1998. Dr. Carter served as Director of Clinical Research for Hahnemann Medical University's Institute for Cancer and Blood Diseases, and as a professor at Johns Hopkins School of Medicine and the State University of New York at Buffalo. Dr. Carter is a Board certified physician and author of more than 200 scientific articles, including the editing of various textbooks on anti-viral and immune therapy.

R. DOUGLAS HULSE was appointed our President and Chief Operating Officer in February 2005. Mr. Hulse has been an executive director at Sage Group, Inc., an international organization providing senior level strategic management services to the biotechnology and pharmaceutical sector, since 1995. Mr. Hulse is a Phi Beta Kappa graduate of Princeton University with a cum laude degree in chemistry and the holder of S.M. Degrees in both management and Chemical Engineering from M.I.T., previously served as our Chief Operating Officer in 1996 and 1997. Mr. Hulse devotes approximately 40 to 50% of his time to our business.

ROBERT E. PETERSON has served as our Chief Financial Officer since April, 1993 and served as an Independent Financial Advisor to us from 1989 to April, 1993. Also, Mr. Peterson has served as Vice President of the Omni Group, Inc., a

business consulting group based in Tulsa, Oklahoma since 1985. From 1971 to 1984, Mr. Peterson worked for PepsiCo, Inc. and served in various financial management positions including Vice President and Chief Financial Officer of PepsiCo Foods International and PepsiCo Transportation, Inc. Mr. Peterson is a graduate of Eastern New Mexico University.

DAVID R. STRAYER, M.D. who served as Professor of Medicine at the Medical College of Pennsylvania and Hahnemann University, has acted as our Medical Director since 1986. He is Board Certified in Medical Oncology and Internal Medicine with research interests in the fields of cancer and immune system disorders. Dr. Strayer 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.

MEI-JUNE LIAO, Ph.D. has served as Vice President of Regulatory Affairs, Quality and Research & Development since October 2003 and as Vice President of Research & Development since March 2003 with responsibilities for the regulatory, quality control and product development of Alferon(R). Before the acquisition of certain assets of ISI, Dr. Liao was Vice President of Research and Development from 1995 to 2003 and held senior positions in the Research and Development Department of ISI from 1983 to 1994. Dr. Liao received her Ph.D. from Yale University in 1980 and completed a three year postdoctoral appointment at the Massachusetts Institute of Technology under the direction of Nobel Laureate in Medicine, Professor H. Gobind Khorana. Dr. Liao has authored many scientific publications and invention disclosures.

ROBERT HANSEN joined us as Vice President of Manufacturing in 2003 upon the acquisition of certain assets of ISI. He is responsible for the manufacture of Alferon(R) N. Mr. Hansen had been Vice President of Manufacturing for ISI since 1997, and served in various capacities in manufacturing since joining ISI in 1987. He has a B.S. degree in Chemical Engineering from Columbia University in 1966.

CAROL A. SMITH, Ph.D. is Director of Process Development and has served as our Director of Manufacturing and Process Development since April 1995, as Director of Operations since 1993 and as the Manager of Quality Control from 1991 to 1993, with responsibility for the manufacture, control and chemistry of Ampligen(R). Dr. Smith was Scientist/Quality Assurance Officer for Virotech International, Inc. from 1989 to 1991 and Director of the Reverse Transcriptase and Interferon Laboratories and a Clinical Monitor for Life Sciences, Inc. from 1983 to 1989. She received her Ph.D. from the University of South Florida College of Medicine in 1980 and was an NIH post-doctoral fellow at the Pennsylvania State University College of Medicine.

RICHARD C. PIANI has been a director since 1995. Mr. Piani has been employed as a principal delegate for Industry to the City of Science and Industry, Paris, France, a billion dollar scientific and educational complex. Mr. Piani provided consulting to us in 1993, with respect to general business strategies for our European operations and markets. Mr. Piani served as Chairman of Industrielle du Batiment-Morin, a building materials corporation, from 1986 to 1993. Previously Mr. Piani was a Professor of International Strategy at Paris Dauphine University from 1984 to 1993. From 1979 to 1985, Mr. Piani served as Group Director in Charge of International and Commercial Affairs for Rhone-Poulenc and from 1973 to 1979 he was Chairman and Chief Executive Officer of Societe "La Cellophane", the French company which invented cellophane and several other worldwide products. Mr. Piani has a Law degree from Faculte de

Droit, Paris Sorbonne and a Business Administration degree from Ecole des Hautes Etudes Commerciales, Paris.

RANSOM W. ETHERIDGE has been a director since October 1997, and presently serves as our secretary and general counsel. Mr. Etheridge first became associated with us in 1980 when he provided consulting services to us and participated in negotiations with respect to our initial private placement through Oppenheimer & Co., Inc. Mr. Etheridge has been practicing law since 1967, specializing in transactional law. Mr. Etheridge is a member of the Virginia State Bar, a Judicial Remedies Award Scholar, and has served as President of the Tidewater Arthritis Foundation. He is a graduate of Duke University, and received his Law degree from the University of Richmond School of Law.

WILLIAM M. MITCHELL, M.D., Ph.D. has been a director since July 1998. Dr. Mitchell is a Professor of Pathology at Vanderbilt University School of Medicine. Dr. Mitchell earned a M.D. from Vanderbilt and a Ph.D. from Johns Hopkins University, where he served as an Intern in Internal Medicine, followed by a Fellowship at its School of Medicine. Dr. Mitchell has published over 200 papers, reviews and abstracts dealing with viruses and anti-viral drugs. Dr. Mitchell has worked for and with many professional societies, including the International Society for Interferon Research, and committees, among them the National Institutes of Health, AIDS and Related Research Review Group. Dr. Mitchell previously served as one of our directors from 1987 to 1989.

STEVEN D. SPENCE was appointed to the Board of Directors in March 2005. Mr. Spence is currently Managing Partner of Valued Ventures, a consultancy Mr. Spence founded in 2003 to foster the development of micro and small cap companies. For the six years prior to founding Valued Ventures, Mr. Spence performed the duties as Managing Director at Merrill Lynch. Prior to his tenure as Managing Director, Mr. Spence has held several high-ranking management positions within Merrill Lynch including Chief Operating Officer for the Security Services Division, Global Head of the Broker Dealer Security Services Division, and Global Head of Financial Futures and Options. Mr. Spence is a graduate of Columbia University in New York City.

IRAJ EQHBAL KIANI, M.B.A., Ph.D., was appointed to the Board of Directors on May 1, 2002. Dr. Kiani is a citizen of England and resides in Newport, California. Dr. Kiani served in various local government position including the Governor of Yasoi, Capital of Boyerahmand, Iran. In 1980, Dr. Kiani moved to England, where he established and managed several trading companies over a period of some 20 years. Dr. Kiani is a planning and logistic specialist who is now applying his knowledge and experience to build a worldwide immunology network, which will use our proprietary technology. Dr. Kiani received his Ph.D. degree from the University of Warwick in England.

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 believe that, during the fiscal year ended December 31, 2005, all of our officers, directors and ten percent stockholders complied with all applicable Section 16(a) filing requirements on a timely basis.

Audit Committee and Audit Committee Expert

Hemispherx's Audit Committee of the Board of Directors consists of Steven Spence, Committee Chairman, William Mitchell, M.D. and Richard Piani. Mr. Spence, Dr. Mitchell, and Mr. Piani are all determined by the Board of Directors to be independent directors as required under Section 121B(2)(a) of the AMEX Company Guide. Mr. Spence serves as the financial expert as defined in Securities and Exchange Commission rules on the committee. Hemispherx believes Mr. Spence, Dr. Mitchell, and Mr. Piani 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 Hemispherx's 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 AMEX or the securities laws, (iii) assist the Board in fulfilling its oversight responsibility relating to the integrity of Hemispherx's financial statements and financial reporting process and Hemispherx's 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, and (vi) review disclosures by Hemispherx's independent registered public accounting firm concerning relationships with Hemispherx and the performance of Hemispherx's independent registered public accounting firm.

Code of Ethics

Our Board of Directors adopted a code of ethics and business conduct for officers, directors and employees that went into effect on May 19, 2003. This code has been presented, reviewed and signed by each officer, director and employee. You may obtain a copy of this code by visiting our web site at www.hemispherx.net (Corporate Info) or by written request to our office at 1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103.

Item 11. Executive Compensation.

The summary compensation table below sets forth the aggregate compensation paid or accrued by us for the fiscal years ended December 31, 2005, 2004 and 2003 to (i) our Chief Executive Officer and (ii) our five most highly paid executive officers other than the CEO who were serving as executive officers at the end of the last completed fiscal year and whose total annual salary and bonus exceeded $100,000 (collectively, the "Named Executives").

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Restricted Stock Awards	Warrants & Options Awards
William A. Carter	2005 (2)	623,330	-- (3)	645,000
Chairman of the Board and	2004 (2)	605,175	-- (4)	320,000
CEO	2003 (2)	582,461	-- (5)	1,450,000

R. Douglas Hulse	2005 (6)	$110,000	-- (6)	250,000
President and COO	2004	--	--	--
	2003	--	--	--
Robert E. Peterson	2005 (7)	253,350	-- (8)	110,000
Chief	2004 (7)	221,242	-- (9)	63,824
Financial	2003 (7)	193,816	--	--
Officer				
David R. Strayer, M.D.	2005(10)	207,304	--(11)	10,000
Medical Director	2004	180,394	--(12)	10,000
	2003	190,096	--	--
Carol A. Smith, Ph.D.	2005	138,697	--(11)	10,000
Director of	2004	134,658	--(12)	10,000
Process Development	2003	140,576	--	--
Mei-June Liao, Ph.D., V.P. of Quality	2005	153,470	--(11)	10,000
Control	2004	149,000	--(12)	10,000
	2003(13)	100,575	--	--
Robert Hansen	2005	135,968	--(11)	10,000
V.P. of Manufacturing	2004	132,000	--(12)	10,000
	2003(13)	104,500	--	--

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(1) Consists of insurance premiums paid by us with respect to term life and disability insurance for the benefit of the named executive officer.

(2) Includes bonuses of $99,481, $121,035 and $124,666 in 2003, 2004 and 2005, respectively.

(3) Consists of stock option grants to a) acquire 100,000 shares at $1.75 per share, b) acquire 10,000 shares at $2.61 per share, c) acquire 70,000 shares at $2.87 and d) to acquire 465,000 shares at $1.86. In 2005, Dr. Carter had 535,000 previously issued options expire.

(4) Consist of a stock option grant of 320,000 shares exercisable at $2.60 per share.

(5) Represents warrants to purchase 1,450,000 shares of common stock exercisable at $2.20 per share.

(6) Reflects compensation beginning February 2005. Stock options issued to Sage Healthcare Advisors, LLC, pursuant to Mr. Hulse's employment agreement. Mr. Hulse has direct interest in 41,667 of these options.

(7) 2003 includes a bonus of $37,830, 2004 includes a bonus of $44,248 and 2005 includes a bonus of $50,670.

(8) Reflects options to purchase 100,000 shares of Common Stock at $1.75 and 10,000 shares at $2.61 per share.

(9) Consist of stock option grant of 50,000 shares exercisable at $3.44 per share and 13,824 stock options to purchase common stock at $2.60 per share.

(10) Includes a bonus of $30,000.

(11) Consists of stock options exercisable at $2.61 per share.

(12) Consists of stock option grant exercisable at $1.90 per share.

(13) Compensation from March 2005. Employed by ISI prior to that.

The following table sets forth certain information regarding stock options and warrants granted during 2005 to the executive officers named in the Summary Compensation Table.

	Individual Grants				
Name	Number Of Securities Underlying Options/ Warrants Granted	Percentage Of Total Options/ Warrants Granted To Employees In Fiscal Year 2005(1)	Exercise Price Per Share (2)	Expiration Date	Potential Assumed Rat Appreciation 5% (
Carter, W.A.	100,000	47.6	$1.75	4/26/15	$63,3
	70,000		2.87	12/9/15	
	10,000		2.61	12/8/15	
	465,000		1.86	7/1/11	
Hulse, R.D.(4)	250,000	18.5	$1.55	2/14/15	20,0
Peterson, R.	100,000	8.1	$1.75	4/26/15	10,0
	10,000		$2.61	12/8/15	
Strayer, D.	10,000	*	$2.61	12/8/15	1,3
Smith, C.	10,000	*	$2.61	12/8/15	1,3
Liao, M.	10,000	*	$2.61	12/8/15	1,3
Hansen, R.	10,000	*	$2.61	12/8/15	1,3

(1) Total stock options and warrants issued to employees in 2005 were 1,352,600.

(2) The exercise price is equal to the closing price of our common stock at the date of issuance.

(3) Potential realizable value is based on an assumption that the market price of the common stock appreciates at the stated rates compounded annually, from the date of grant until the end of the respective option term. These values are calculated based on requirements promulgated by the Securities and Exchange Commission and do not reflect our estimate of future stock price appreciation.

(4) Reflects compensation beginning February 2005. Stock options issued to Sage Healthcare Advisors, LLC, pursuant to Mr. Hulse's employment agreement. Mr. Hulse has direct interest in 41,567 of these options.

The following table sets forth certain information regarding the stock options and warrants held as of December 31, 2005 by the individuals named in the above Summary Compensation Table.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION/WARRANT VALUE

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Securities Underlying Unexercised Warrants/Options at Fiscal Year End Numbers		Value In-the-Mone Fiscal Ye
			Exercisable	Unexercisable	Exercisa
William Carter	--	--	5,515,378(2)	257,500 (3)	$313,6
Robert Peterson	--	--	567,574 (4)	10,000 (5)	76,0
David Strayer	--	--	137,500 (6)	12,500 (7)	9,8
Carol Smith	--	--	49,291 (8)	12,500 (7)	4,7
Mei-June Liao	--	--	7,500 (9)	12,500 (7)	1,3
Robert Hansen	--	--	7,500 (9)	12,500 (7)	1,3

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(1) Computation based on $2.17, the December 31, 2005 closing bid price for the common stock on the American Stock Exchange.

(2) Includes shares issuable upon the exercise of (i) warrants issued in 2001 to purchase 376,650 shares of common stock consisting of 188,325 exercisable at $6.00 per share and 188,325 exercisable at $9.00 per share, all of which expired on February 22, 2006; (ii) stock options issued in 2001 to purchase 10,000 shares of common stock at $4.03 per share expiring January 3, 2011; (iii) warrants issued in 2002 to purchase 750,000 shares of common stock exercisable at $2.00 per share expiring on August 7, 2007; (iv) warrants issued in 2003 to purchase 1,450,000 shares of common stock exercisable at $2.20 per share expiring on September 8, 2008; (v) stock options issued in 2004 to purchase 320,000 shares of common stock at $2.60 per share expiring on September 7, 2014; (vi) Stock Options issued in 2005 to purchase 100,000 shares of common stock at $1.75 per share expiring on April 26, 2015; (vii) stock options issued in 2005 to purchase 465,000 shares of common stock at $1.86 per share expiring July 1, 2011; (viii) stock options issued in 2005 to purchase 70,000 shares of common stock at $2.87 per share expiring December 9, 2015; and (ix) stock options issued in 2005 to purchase 10,000 shares of common stock at $2.61 per share expiring Decemner 8, 2015. Also includes 1,963,728 warrants and options originally issued to William A. Carter and subsequently transferred to Carter Investments of which Dr. Carter is the beneficial owner. These

securities consist of warrants issued in 1998(a) to purchase 490,000 shares of common stock consisting of 190,000 exercisable at $4.00 per share expiring on January 1, 2008 and 300,000 exercisable at $6.00 per share that expired on January 1, 2006; (b)stock options granted in 1991 and extended in 1998 to purchase 73,728 shares of common stock exercisable at $2.71 per share expiring on August 8, 2008 and (c)Warrants issued in 2002 to purchase 1,400,000 shares of common stock at $3.50 per share expiring on September 30, 2007. The 376,650 warrants expired on February 22, 2006 and the 300,000 warrants that expired on January 1, 2006 were replaced by the Board of Directors (refer to Item 12. Security Ownership of Certain Beneficial Owners and Management).

(3) Consists of (i) 250,000 warrants exercisable at $2.00 per share expiring on August 13, 2007 and 7,500 stock options exercisable at $2.61 per share expiring on December 8, 2015.

(4) Includes shares issuable upon exercise of (i) options issued in 1997 to purchase 13,750 shares of common stock at $3.50 per share and expiring on January 22, 2007, (ii) options issued in 2001 to purchase 10,000 shares of common stock at $4.03 per share and expiring on January 3, 2011, (iii) warrants issued in 2002 to purchase 200,000 shares of common stock at $2.00 per share expiring on August 13, 2007; and (iv) options issued in 2005 to purchase 100,000 shares of common stock at $1.75 per share expiring April 26, 2015. Also includes 243,824 warrants/options originally issued to Robert E. Peterson and subsequently transferred to the Robert E. Peterson Trust of which Robert E. Peterson is owner and Trustee. These securities include options issued in 1996 to purchase 50,000 shares of common stock exercisable at $3.50 per share and expired on February 28, 2006; warrants issued in 1998 to purchase 100,000 shares of common stock at $5.00 per share expiring on April 14, 2006; warrants issued in 2002 to purchase 30,000 shares of common stock exercisable at $5.00 per share expiring on April 30, 2006 and 63,824 stock options issued in 2004 consisting of 50,000 options to acquire common stock at $3.44 per share expiring on June 22, 2014 and 13,824 options to acquire common stock at $2.60 per share expiring on September 7, 2014. The 50,000 options that expired on February 28, 2006 were replaced by the Board of Directors (refer to Item 12. Security Ownership of Certain Beneficial Owners and Management).

(5) Consists of 10,000 options issued in 2005 exercisable at $2.61 per share.

(6) Consists of (i) 50,000 warrants exercisable at $2.00 per share expiring on August 13, 2007, (ii) 50,000 warrants exercisable at $4.00 per share expiring on February 28, 2008, (iii) 10,000 stock options exercisable at $4.03 expiring on January 3, 2011; (iv) 20,000 stock options exercisable at $3.50 per share expiring on January 22, 2007; and (v) 10,000 stock options exercisable at $1.90 per share expiring on December 7, 2014 and 10,000 stock options exercisable at $2.61 per share expiring on December 8, 2015.

(7) Consists of 5,000 stock options exercisable at $1.90 per share expiring on December 7, 2014 and 7,500 stock options exercisable at $2.61 per share expiring on December 8, 2015.

(8) Consists of (i) 20,000 warrants exercisable at $2.00 per share expiring on August 13, 2007, (ii) 5,000 warrants exercisable at $4.00 per share expiring on June 7, 2008, (iii) 10,000 stock options exercisable at $4.03

per share expiring on January 3, 2016; (iv) 6,791 stock options exercisable at $3.50 per share expiring on January 22, 2007; and (v) 5,000 stock options exercisable at $1.90 per share expiring on December 7, 2014 and 2,500 stock options exercisable at $2.61 per share expiring on December 8, 2015.

(9) Consists of 5,000 options to purchase common stock at $1.90 per share expiring on December 7, 2014 and 2,500 stock options exercisable at $2.61 per share expiring on December 8, 2015.

Employment and Change in Control Agreements

On March 11, 2005, our board of directors, at the recommendation of the Compensation Committee, approved an amended and restated employment agreement and an amended and restated engagement agreement with Dr. William A. Carter.

The amended and restated employment agreement provides for Dr. Carter's employment as our Chief Executive Officer and Chief Scientific Officer until December 31, 2010 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date unless we or Dr. Carter give written notice otherwise at least ninety days prior to the termination date or any renewal period. Dr. Carter has the right to terminate the agreement on 30 days' prior written notice. The initial base salary retroactive to January 1, 2005 is $290,888, subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. In addition, Dr. Carter could receive an annual performance bonus of up to 25% of his base salary, at the sole discretion of the Compensation Committee of the board of directors, based on his performance or our operating results. Dr. Carter will not participate in any discussions concerning the determination of his annual bonus. Dr. Carter is also entitled to an incentive bonus of 0.5% of the gross proceeds received by us from any joint venture or corporate partnering arrangement. Dr. Carter's agreement also provides that he be paid a base salary and benefits through the last day of the then term of the agreement if he is terminated without "cause", as that term is defined in agreement. In addition, should Dr. Carter terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Dr Carter be paid a base salary and benefits through the last day of the month in which the termination occurred and for an additional twelve month period. Pursuant to his original agreement, Dr. Carter was granted options to purchase 73,728 (post split) shares in 1991. The exercise period of these options was extended through December 31, 2010 and, should Dr. Carter's employment agreement be extended beyond that date, the option exercise period is further extended to the last day of the extended employment period.

The amended and restated engagement agreement, retroactive to January 1, 2005, provides for our engagement of Dr. Carter as a consultant related to patent development, as one of our directors and as chairman of the Executive Committee of our board of directors until December 31, 2010 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date or any renewal period. Dr. Carter has the right to terminate the agreement on 30 days' prior written notice. The initial base fee as of January 1, 2004 is $207,777, subject to annual adjustments equal to the percentage increase or decrease of annual dollar value of directors' fees provided to our directors during the prior year. The annual fee is further subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. In addition, Dr. Carter could receive an annual performance bonus of up to 25% of his base fee, at the

sole direction of the Compensation Committee of the board of directors, based on his performance. Dr. Carter will not participate in any discussions concerning the determination of this annual bonus. Dr. Carter's agreement also provides that he be paid his base fee through the last day of the then term of the agreement if he is terminated without "cause", as that term is defined in the agreement. In addition, should Dr. Carter terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Dr. Carter be paid fees due him through the last day of the month in which the termination occurred and for an additional twelve month period.

On February 14, 2005 we entered into an agreement with The Sage Group of Branchburg, New Jersey for R. Douglas Hulse, an Executive Director of The Sage Group, to serve as President and Chief Operating Officer of our company. In addition, other Sage Group principals and Senior Directors will be made available to assist as needed. The engagement is expected to continue for a period of 18 months; however, it is terminable on 30 days written notice by either party after 12 months. Compensation for the services include a ten year warrant to purchase 250,000 shares of our common stock at an exercise price of $1.55. These warrants were issued to Sage Healthcare Advisors, LLC and are to vest at the rate of 12,500 per month of the engagement with 25,000 vesting upon completion of the eighteenth month. Vesting accelerates in the event of a merger or a purchase of a majority of our assets or equity. We valued these warrants at $256,000 utilizing the Black-Scholes Method. As of December 31, 2005, the $150,000 was expensed to stock compensation expense. The Sage Group also is to receive a monthly retainer of $10,000 for the period of the engagement. In addition, for each calendar year (or part thereof) during which the agreement is in effect, The Sage Group will be entitled to an incentive bonus in an amount equal to 0.5% of the gross proceeds received by us during such year from any joint ventures or corporate partnering arrangements. After termination of the agreement, The Sage Group will only be entitled to receive the incentive bonus based upon gross proceeds received by us during the two year period commencing on the termination of the agreement with respect to any joint ventures or corporate partnering arrangements entered into by us during the term of the agreement. Mr. Hulse will devote approximately two to two and one half days per week to our business.

We entered into an engagement agreement, retroactive to January 1, 2005, with Ransom W. Etheridge which provides for Mr. Etheridge's engagement as our General Counsel until December 31, 2009 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date unless we or Mr. Etheridge give written notice otherwise at least ninety days prior to the termination date or any renewal period. Mr. Etheridge has the right to terminate the agreement on 30 days' prior written notice. The initial annual fee for services is $96,000 and is annually subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. Mr. Etheridge's agreement also provides that he be paid all fees through the last day of then current term of the agreement if he is terminated without "cause" as that term is defined in the agreement. In addition, should Mr. Etheridge terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Mr. Etheridge be paid the fees due him through the last day of the month in which the termination occurred and for an additional twelve month period. Mr. Etheridge will devote approximately 85% of his business time to our business.

We entered into an amended and restated engagement agreement, retroactive to January 1, 2005, with Robert E. Peterson which provides for Mr. Peterson's engagement as our Chief Financial Officer until December 31, 2010 unless sooner

terminated for cause or disability. Mr. Peterson has the right to terminate the agreement on 30 days' prior written notice. The initial annual fee for services is $202,680 and is annually subject to increases based on the average increase in the cost of inflation index for the prior year. Mr. Peterson shall receive an annual bonus in each year that our Chief Executive Officer is granted a bonus. The bonus shall equal a percentage of Mr. Peterson's base annual compensation comparable to the percentage bonus received by the Chief Executive Officer. In addition, Mr. Peterson shall receive bonus compensation upon Federal Drug Administration approval of commercial application of Ampligen(R). Mr. Peterson's agreement also provides that he be paid all fees through the last day of then current term of the agreement if he is terminated without "cause" as that term is defined in the agreement. In addition, should Mr. Peterson terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Mr. Peterson be paid the fees due him through the last day of the month in which the termination occurred and for an additional twelve month period. Mr. Peterson will devote approximately 85% of his business time to our business.

On March 11, 2005 the Board of Directors, deeming it essential to the best interests of our shareholders to foster the continuous engagement of key management personnel and recognizing that, as is the case with many publicly held corporations, a change of control might occur and that such possibility, and the uncertainty and questions which it might raise among management, might result in the departure or distraction of management personnel to the detriment of our company and our shareholders, determined to reinforce and encourage the continued attention and dedication of members of our management to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of our company and entered into identical agreements regarding change in control with William A. Carter, our Chief Executive Officer and Chief Scientific Officer, Robert E. Peterson, our Chief Financial Officer and Ransom W. Etheridge, our General Counsel. Each of the agreements regarding change in control became effective March 11, 2005 and continue through December 31, 2007 and shall extend automatically to the third anniversary thereof unless we give notice to the other party prior to the date of such extension that the agreement term will not be extended. Notwithstanding the foregoing, if a change in control occurs during the term of the agreements, the term of the agreements will continue through the second anniversary of the date on which the change in control occurred. Each of the agreements entitles William A. Carter, Robert E. Peterson and Ransom W. Etheridge, respectively, to change of control benefits, as defined in the agreements and summarized below, upon their respective termination of employment/engagement with our company during a potential change in control, as defined in the agreements or after a change in control, as defined in the agreements, when their respective terminations are caused (1) by us for any reason other than permanent disability or cause, as defined in the agreement (2) by William A. Carter, Robert E. Peterson and/or Ransom W. Etheridge, respectively, for good reason as defined in the agreement or, (3) by William A. Carter, Robert E. Peterson and/or Ransom W. Etheridge, respectively for any reason during the 30 day period commencing on the first date which is six months after the date of the change in control.

The benefits for each of the foregoing executives would be as follows:

- A lump sum cash payment of three times his base salary and annual bonus amounts; and
- Outplacement benefits.

Each agreement also provides that the executive is entitled to a "gross-up" payment to make him whole for any federal excise tax imposed on change of control or severance payments received by him.

Dr. Carter's agreement also provides for the following benefits:

- Continued insurance coverage through the third anniversary of his termination; and
- Retirement benefits computed as if he had continued to work for the above period.

Compensation of Directors

The compensation package for non-employee members of the Board of Directors was changed on September 9, 2003. Board member compensation consists of an annual retainer of $100,000 to be paid 50% in cash and 50% in our common stock. On September 9, 2003 the Directors approved a 10 year plan which authorizes up to 1,000,000 shares for use in supporting this compensation plan. The number of shares paid shall have a value of $12,500 with the value of the shares being determined by the closing price of our common stock on the American Stock Exchange on the last day of the calendar quarter. In addition, all non-employee directors received some compensation in 2003 for special project work performed on our behalf. This project work ceased as of September 30, 2003. All directors have been granted options to purchase common stock under our Stock Option Plans and/or Warrants to purchase common stock. We believe such compensation and payments are necessary in order for us to attract and retain qualified outside directors.

2004 Equity Incentive Plan

Our 2004 Equity Incentive Plan ("2004 Plan") provides for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and other stock awards to our employees, directors, officers, consultants and advisors for the purchase of up to an aggregate of 8,000,000 shares of common stock. The 2004 plan is administered by the board of directors, which has complete discretion to select eligible individuals to receive and to establish the terms of grants under the plan. Stock options awarded under the Equity Incentive Plan may be exercisable at such times (not later than 10 years after the date of grant) and at such exercise prices (not less than fair market value at the date of grant) as the Board may determine. The Board may provide for options to become immediately exercisable upon a "change in control" as defined in the plan. The number of shares of common stock available for grant under the 2004 Plan is subject to adjustment for changes in capitalization. As of December 31, 2005, 6,014,320 shares were available for grants under the 2004 Plan, 633,080 and 1,352,600 options were issued in 2004 and 2005, respectively. Unless sooner terminated, the Equity Incentive Plan will continue in effect for a period of 10 years from its effective date

1990 Stock Option Plan

Our 1990 Stock Option Plan, as amended ("1990 Plan"), provides for the grant of options to our employees, directors, officers, consultants and advisors for the purchase of up to an aggregate of 460,798 shares of common stock. The 1990 Plan is administered by the Compensation Committee of the board of directors, which has complete discretion to select eligible individuals to

receive and to establish the terms of option grants. The number of shares of common stock available for grant under the 1990 Plan is subject to adjustment for changes in capitalization. As of December 31, 2004 and 2005, 18,881 options were available for grants under the 1990 Plan. This plan remains in effect until terminated by the Board of Directors or until all options are issued.

401(K) Plan

In December 1995, we established a defined contribution plan, effective January 1, 1995, entitled the Hemispherx Biopharma employees 401(K) Plan and Trust Agreement. All of our full time employees are eligible to participate in the 401(K) plan following one year of employment. Subject to certain limitations imposed by federal tax laws, participants are eligible to contribute up to 15% of their salary (including bonuses and/or commissions) per annum. Participants' contributions to the 401(K) plan may be matched by Hemispherx at a rate determined annually by the board of directors. Each participant immediately vests in his or her deferred salary contributions, while our contributions will vest over one year. See Note 12 to the consolidated financial statements contained herein.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee of the Board of Directors consists of , the Committee Chairman, William Mitchell, M.D., Richard Piani, Dr. Iraj E. Kiani and are all independent directors. There are no interlocking relationships.

Compensation Committee Report on Compensation

The Compensation Committee makes recommendations concerning salaries and compensation for our employees and consultants.

The following report of the compensation committee discusses our executive compensation policies and the basis of the compensation paid to our executive officers in 2005.

In general, the compensation committee seeks to link the compensation paid to each executive officer to the experience and performance of such executive officer. Within these parameters, the executive compensation program attempts to provide an overall level of executive compensation that is competitive with companies of comparable size and with similar market and operating characteristics.

There are three elements in our executive total compensation program, all determined by individual and corporate performance as specified in the various employment agreements; base salary, annual incentive, and long-term incentives.

Base Salary

The Summary Compensation Table shows amounts earned during 2005 by our executive officers. The base compensation of such executive officers is set by terms of the employment agreement entered into with each such executive officer. We established the base salaries for Chief Executive Officer, Dr. William A. Carter under an employment agreement in December 3, 1998 (as amended and restated on March 11, 2005), which provides for a base salary of $290,888. In addition, we entered into an agreement with Dr. Carter for his services as a consultant related to patient development, development of patents and as a member of our Board of Directors. This agreement establishes a base annual fee

of $207,777. Both agreements are subject to annual cost of living adjustments. Dr. Carter is entitled to an annual performance bonus of up to 25% of the base salary of each agreement at the discretion of the compensation committee of the Board of Directors.

On March 11, 2005, we entered into an extended engagement agreement with Robert E. Peterson, Chief Financial Officer retroactive to January 1, 2005 for a base annual fee of $202,680 until December 31, 2010. Mr. Peterson's agreement allows for annual cost of living increases and a performance bonus.

On March 11, 2005, we entered into an engagement agreement with Ransom W. Etheridge, Corporate General Counsel, retroactive to January 1, 2005 for an annual fee of $96,000 until December 31, 2009.

Annual Incentive

Our Chief Executive Officer and our Chief Financial Officer are entitled to an annual incentive bonus as determined by the compensation committee based on such executive officers' performance during the previous calendar year. The cash bonus awarded to our Chief Executive Officer in 2004 and 2005 and the cash bonus awarded to the Chief Financial Officer in 2004 and 2005 were determined based on this provision in their employment agreements.

Long-Term Incentives

We grant long-term incentive awards periodically to align a significant portion of the executive compensation program with stockholder interest over the long-term through encouraging and facilitating executive stock ownership. Executives are eligible to participate in our incentive stock option plans. Our Chief Executive Officer and President, Dr. William Carter, received a grant of 645,000 stock options in 2005 of which 535,000 were issued to replace options previously awarded that expired. These options are exercisable at rates varying from $1.75 to $2.87 per share. The options vested on the date of grant.

On April 26, 2005, our Chief Financial Officer, Robert E. Peterson, was granted 100,000 stock options exercisable at $1.75 per share expiring on April 26, 2015 unless previously exercised. On December 8, 2005 Mr. Peterson was granted 10,000 stock options exercisable at $2.61 per share expiring on December 8, 2015.

Ransom Etheridge, our Corporate Secretary and General Counsel, was awarded 100,000 stock options on April 26, 2005 exercisable at $1.75 per share expiring April 26, 2015, unless previously exercised.

Performance Graph

Total Return to Shareholders
(Includes reinvestment of dividends)

ANNUAL RETURN PERCENTAGE
Years Ending

Company Name / Index	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05
HEMISPHERX BIOPHARMA INC	-5.26	-52.67	6.10	-15.93	14.21
S&P 600 INDEX	6.54	-14.63	38.79	22.65	7.68
PEER GROUP	48.39	-45.76	5.33	-52.63	-41.59

		INDEXED RETURNS Years Ending				
Company Name / Index	Base Period Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05
HEMISPHERX BIOPHARMA INC	100	94.74	44.84	47.58	40.00	45.68
S&P 600 INDEX	100	106.54	90.95	126.23	154.82	166.71
PEER GROUP	100	148.39	80.49	84.78	40.16	23.46

Peer Group Companies

AVI BIOPHARMA INC
IMMUNE RESPONSE CORP/DE
LA JOLLA PHARMACEUTICAL CO
MAXIM PHARMACEUTICALS INC

[GRAPHIC]

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth as of May 26, 2006, the number and percentage of outstanding shares of common stock beneficially owned by:

- Each person, individually or as a group, known to us to be deemed the beneficial owners of five percent or more of our issued and outstanding common stock;
- each of our directors and the Named Executives; and
- all of our officers and directors as a group.

As of March 24, 2006, there were no other persons, individually or as a group, known to the Hemispherx to be deemed the beneficial owners of five percent or more of the issued and outstanding common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned	% Of Shares Beneficially Owned
William A. Carter, M.D.	6,272,868 (1)	9.3
Robert E. Peterson	585,574 (2)	*
Ransom W. Etheridge 2610 Potters Rd. Virginia Beach, VA 23452	642,560 (3)	1.0
Richard C. Piani 97 Rue Jeans-Jaures	450,602 (4)	*

Levaillois-Perret France 92300		
Doug Hulse Sage Group, Inc. 3322 Route 22 West Building 2, Suite 201 Branchburg, NJ 08876	131,067 (5)	*
William M. Mitchell, M.D. Vanderbilt University Department of Pathology Medical Center North 21st and Garland Nashville, TN 37232	397,884 (6)	*
David R. Strayer, M.D.	160,746 (7)	*
Carol A. Smith, Ph.D.	61,791 (8)	*
Iraj-Eqhbal Kiani, Ph.D. Orange County Immune Institute 18800 Delaware Street Huntingdon Beach, CA 92648	97,797 (9)	*
Steven Spence	197,883(10)	*
Mei-June Liao, Ph.D.	20,000(11)	*
Robert Hansen	20,000(11)	*
All directors and executive officers as a group (11 persons)	9,038,772	12.9%

* Less than 1%

(1) Includes shares issuable upon the exercise of (i) replacement options issued in 2006 to purchase 376,650 shares of common stock exercisable at $3.78 per share expiring on February 22, 2016; (ii) stock options issued in 2001 to purchase 10,000 shares of common stock at $4.03 per share expiring January 3, 2011; (iii) warrants issued in 2002 to purchase 1,000,000 shares of common stock exercisable at $2.00 per share expiring on August 7, 2007; (iv) warrants issued in 2003 to purchase 1,450,000 shares of common stock exercisable at $2.20 per share expiring on September 8, 2008; (v) stock options issued in 2004 to purchase 320,000 shares of common stock at $2.60 per share expiring on September 7, 2014; (vi) Stock Options issued in 2005 to purchase 100,000 shares of common stock at $1.75 per share expiring on April 26, 2015; (vii) Stock options issued in 2005 to purchase 465,000 shares of common stock at $1.86 per share expiring July 1, 2011; and (viii) stock options issued in 2005 to purchase 70,000 shares of Common Stock at $2.87 per share expiring December 9, 2015; (ix) stock options issued in 2005 to purchase 10,000 shares of Common Stock at $2.61 per share expiring December 8, 2015; and (x) 507,490 shares of Common Stock. Also includes 1,963,728 warrants and options originally issued to William A. Carter and subsequently transferred to Carter Investments of which Dr. Carter is the beneficial owner. These securities consist of warrants issued in 1998(a) to purchase

490,000 shares of common stock consisting of 190,000 exercisable at $4.00 per share expiring on January 1, 2008 and 300,000 exercisable at $2.38 per share expiring January 1, 2016; (b)stock options granted in 1991 and extended in 1998 to purchase 73,728 shares of common stock exercisable at $2.71 per share expiring on August 8, 2008 and (c)Warrants issued in 2002 to purchase 1,400,000 shares of common stock at $3.50 per share expiring on September 30, 2007.

(2) Includes shares issuable upon exercise of (i) options issued in 1997 to purchase 13,750 shares of common stock at $3.50 per share and expiring on January 22, 2007; (ii) options issued in 2001 to purchase 10,000 shares of common stock at $4.03 per share and expiring on January 3, 2011; (iii) warrants issued in 2002 to purchase 200,000 shares of common stock at $2.00 per share expiring on August 13, 2007; (iv) options issued in 2005 to purchase 100,000 shares of common stock at $1.75 per share expiring April 26, 2015; (v) options issued in 2005 to purchase 10,000 shares of Common Stock at $2.61 per share expiring December 8, 2015; and (vi) 8,000 shares of Common Stock. Also includes 243,824 warrants/options originally issued to Robert E. Peterson and subsequently transferred to the Robert E. Peterson Trust of which Robert E. Peterson is owner and Trustee. These securities include options issued in 2006 to purchase 50,000 shares of common stock exercisable at $3.66 per share expiring on February 28, 2016; replacement options issued in 2006 to purchase 100,000 shares of common stock at $3.48 per share expiring on April 14, 2016; replacement options issued in 2006 to purchase 30,000 shares of common stock exercisable at $3.55 per share expiring on April 30, 2016 and 63,824 stock options issued in 2004 consisting of 50,000 options to acquire common stock at $3.44 per share expiring on June 22, 2014 and 13,824 options to acquire common stock at $2.60 per share expiring on September 7, 2014.

Includes shares issuable upon exercise of (i) 20,000 warrants issued in 1998 to purchase common stock at $4.00 per share, originally expiring on January 1, 2003 and extended to January 1, 2008; (ii) 100,000 warrants issued in 2002 exercisable $2.00 per share expiring on August 13, 2007; (iii) stock options issued in 2005 to purchase 100,000 shares of common stock exercisable at $1.75 per share expiring on April 26, 2015; and(iv) stock options issued in 2004 to purchase 50,000 shares of common stock exercisable at $2.60 per share expiring on September 7, 2014; (v) stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at $3.86 per share expiring February 24, 2006 and (vi) 122,560 shares of common stock. Also includes 200,000 stock options originally granted to Ransom Etheridge in 2003 and subsequently transferred to relatives and family trusts. These stock options are exercisable at $2.75 per share and expires on December 4, 2013. The transfers consist of 37,500 options to Julianne Inglima; 37,500 options to Thomas Inglima; 37,500 options to R. Etheridge-BMI Trust; and 37,500 options to R. Etheridge-TCI Trust and 50,000 options to the Family Trust. Julianne and Thomas are Mr. Etheridge's daughter and son-in-law.

(3) Includes shares issuable upon exercise of (i) 20,000 warrants issued in 1998 to purchase common stock at $4.00 per share originally expiring on January 1, 2005 and extended to January 1, 2008; (ii) 100,000 warrants issued in 2003 exercisable at $2.00 per share expiring on August 13, 2007; (iii)options granted in 2004 to purchase 54,608 shares of common stock exercisable at $2.60 per share expiring on September 17, 2014; (iv) options granted in 2005 to purchase 100,000 shares of common stock exercisable at $1.75 per share expiring on April 26, 2015; (v) stock

options issued in 2006 to purchase 50,000 shares of common stock exercisable at $3.86 per share expiring February 24, 2006; (vi) 108,094 shares of common stock owned by Mr. Piani; vii) 12,900 shares of common stock owned jointly by Mr. and Mrs. Piani; and (viii) and 5,000 shares of common stock owned by Mrs. Piani.

(4) Consists of 41,667 options exercisable at $1.55 per share expiring February 14, 2015. Shares owned includes 89,400 shares of common stock in which Mr. Hulse has an undivided interest. These shares are held by Sage Healthcare Advisors, LLC of which Mr. Hulse is a principal.

(5) Includes shares issuable upon exercise of (i) warrants issued in 1998 to purchase 12,000 shares of common stock at $6.00 per share, expiring on August 25, 2008; (ii) 100,000 warrants issued in 2002 exercisable at $2.00 per share expiring on August 13, 2007; (iii) 50,000 stock options issued in 2004 exercisable at $2.60 per share expiring on September 7, 2014; (iv) 100,000 stock options issued in 2005 exercisable at $1.75 per share expiring on April 26, 2015; (v) stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at $3.86 per share expiring February 24, 2006; and (vi) 85,884 shares of common stock.

(6) (i) stock options issued in 1997 to purchase 20,000 shares of common stock at $3.50 per share expiring on February 22, 2007; (ii) warrants issued in 1998 to purchase 50,000 shares of common stock exercisable at $4.00 per share expiring on February 28, 2008; (iii) stock options granted in 2001 to purchase 10,000 shares of common stock exercisable at $4.03 per share expiring on January 3, 2011; (iv) warrants issued in 2002 to purchase 50,000 shares of common stock exercisable at $2.00 per share expiring on August 13, 2007; (v) stock options issued in 2004 to purchase 10,000 shares of common stock exercisable at $1.90 per share expiring on December 7, 2014; (vi) stock options issued in 2005 to purchase 10,000 shares of Common Stock at $2.61 per share expiring December 8, 2015 and (vii) 10,746 shares of common stock.

(7) Consists of shares issuable upon exercise of(i) 5,000 warrants issued in 1998 to purchase common stock at $4.00 per share expiring June 7, 2008; (ii) 20,000 warrants issued in 2002 exercisable at $2.00 per share expiring in August 13, 2007; (iii) 6,791 stock options issued in 1997 exercisable at $3.50 expiring January 22, 2007; (iv) 10,000 stock options issued in 2001 exercisable at $4.03 per share expiring January 3, 2011; (v) 10,000 stock options issued in 2004 exercisable at $1.90 expiring on December 7, 2014; and 10,000 stock options issued in 2005 to purchase Common Stock at $2.61 per share expiring December 8, 2015.

(8) Consists of shares issuable upon exercise of (i) 12,000 options issued in 2005 exercisable at $1.63 per share expiring on June 2, 2015; (ii) 15,000 options issued in 2005 exercisable at $1.75 per share expiring on April 26, 2015; (iii) stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at $3.86 per share expiring February 24, 2006; and (iv) 20,797 shares of common stock.

(9) Consists of 15,000 stock options granted in 2005 exercisable at $1.75 per share expiring on April 26, 2015; stock options issued in 2006 to purchase 50,000 shares of common stock exercisable at $3.86 per share expiring February 24, 2006; and 132,883 shares of common stock.

(10) Consists of 10,000 stock options granted in 2004 exercisable at $1.90 per

share of common stock expiring on December 7, 2014; and 10,000 stock options issued in 2005 to purchase Common Stock at $2.61 per share expiring December 8, 2015.

Item 13. Certain Relationships and Related 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 under the headings, "Item 11. Executive Compensation," and "Item 12. Security Ownership of Certain Beneficial Owners and Management," above.

Ransom W. Etheridge, our Secretary, General Counsel and one of our directors, is an attorney in private practice, who renders corporate legal services to us from time to time, for which he has received fees totaling $88,000 in 2005. In addition, Mr. Etheridge serves on the Board of Directors for which he received Director's Fees of cash and stock valued at $100,000 in 2005. We loaned $60,000 to Ransom W. Etheridge in November, 2001 for the purpose of exercising 15,000 class A redeemable warrants. This loan bore interest at 6% per annum. This loan was granted prior to the enactment of the Sarbanes Oxley Act of 2002 prohibiting such transactions. In lieu of granting Mr. Etheridge a bonus for outstanding legal work performed on behalf of the Company, the Board of Directors forgave the loan and accrued interest on February 24, 2006.

Richard Piani, a Director, lives in Paris, France and assisted our European subsidiaries in their dealings with medical institutions and the European Medical Evaluation Authority. Mr. Piani assisted us in establishing clinical trial protocols as well as performed other scientific work for us. The services provided by Mr. Piani terminated in September 2003. For these services, Mr. Piani was paid an aggregate of $100,100 for the year ended December 31, 2003.

We paid $18,800, and $7,600 for the years ended December 31, 2003 and 2004, respectively to Carter Realty for the rent of property used by us at various times in years 2003 and 2004 by us. The property was owned by others, but was acquired in late 2004 by Retreat House, LLC an entity in which the children of William A. Carter have a beneficial interest. We paid Retreat House, LLC $54,400 for the use of the property at various times in 2005.

Antoni Esteve, one of our former directors, was a Member of the Executive Committee and Director of Scientific and Commercial Operations of Laboratorios Del Dr. Esteve S.A. In March 2002, our European subsidiary Hemispherx S.A. entered into a Sales and Distribution Agreement with Laboratorios Del Dr. Esteve S.A. In addition, in March 2003, we issued 347,445 shares of our common stock to Provesan SA, an affiliate of Laboratorios Del Dr. Esteve S.A., in exchange for 1,000,000 Euros of convertible preferred equity certificates of Hemispherx S.A., owned by Laboratorios Del Dr. Esteve S.A.

We have engaged the Sage Group, Inc., a health care, technology oriented, strategy and transaction advisory firm, to assist us in obtaining a strategic alliance in Japan for the use of Ampligen(R) in treating Chronic Fatigue Syndrome (CFS) and Avian Flu. R. Douglas Hulse, our President and Chief Operating Officer, is a member and an executive director of The Sage Group, Inc. Please see "Employment and Change in Control Agreements" in Item 11. Executive Compensation above for more information.

ITEM 14. Principal Accounting Fees and Services.

All audit and professional services provided by BDO Seidman, LLP are approved in advance by the Audit Committee to assure such services do not impair the auditor's independence from us. The total fees billed by BDO Seidman, LLP were $226,484 in 2004 and $591,000 in 2005. The following table shows the aggregate fees billed to us by BDO Seidman, LLP for professional services rendered during the year ended December 31, 2005.

	Amount ($)	
Description of Fees	2004	2005*
Audit Fees	$189,475	$591,000
Audit-Related Fees	37,009	--
Tax Fees	--	--
All Other Fees	--	--
Total	$226,484	$591,000

* Fees for 2005 have not yet been finalized.

Audit Fees

Represents fees for professional services provided for the audit of our annual financial statements, audit of the effectiveness of internal control over financial reporting, services that are performed to comply with generally accepted auditing standards, and review of our financial statements included in our quarterly reports and services in connection with statutory and regulatory filings.

Audit-Related Fees

Represents the fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements.

The Audit Committee has determined that BDO Seidman, LLP's rendering of these non-audit services is compatible with maintaining auditors independence. The Board of Directors considers BDO Seidman, LLP to be well qualified to serve as our independent public accountants. The committee also pre-approved the charges for services performed in 2005.

The Audit Committee pre-approves all auditing services and the terms thereof (which may include providing comfort letters in connection with securities underwriting) and non-audit services (other than non-audit services prohibited under Section 10A(g) of the Exchange Act or the applicable rules of the SEC or the Public Company Accounting Oversight Board) to be provided to us by the independent auditor; provided, however, the pre-approval requirement is waived with respect to the provisions of non-audit services for us if the "de minimus" provisions of Section 10A (i)(1)(B) of the Exchange Act are satisfied. This authority to pre-approve non-audit services may be delegated to one or more members of the Audit Committee, who shall present all decisions to pre-approve an activity to the full Audit Committee at its first meeting following such decision.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules - See index to financial statements on page F-1 of this Annual Report.

All other schedules called for under regulation S-X are not submitted because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto.

(b) Exhibits - See exhibit index below.

Except as disclosed in the footnotes, the following exhibits were filed with the Securities and Exchange Commission as exhibits to our Form S-1 Registration Statement (No. 33-93314) or amendments thereto and are hereby incorporated by reference:

Exhibit No.	Description
2.1	First Asset Purchase Agreement dated March 11, 2003, by and between the Company and ISI.(1)
2.2	Second Asset Purchase Agreement dated March 11, 2003, by and between the Company and ISI.(1)
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended, along with Certificates of Designations.
3.1.1	Series E Preferred Stock.
3.2	By-laws of Registrant, as amended.
4.1	Specimen certificate representing our Common Stock.
4.2	Rights Agreement, dated as of November 19, 2002, between the Company and Continental Stock Transfer & Trust Company. The Right Agreement includes the Form of Certificate of Designation, Preferences and Rights of the Series A Junior Participating Preferred Stock, the Form of Rights Certificate and the Summary of the Right to Purchase Preferred Stock.(2)
4.3	Form of 6% Convertible Debenture of the Company issued in March 2003.(1)
4.4	Form of Warrant for Common Stock of the Company issued in March 2003.(1)
4.5	Form of Warrant for Common Stock of the Company issued in June 2003.(3)
4.6	Form of 6% Convertible Debenture of the Company issued in July 2003.(4)
4.7	Form of Warrant for Common Stock of the Company issued in July 2003.(4)
4.8	Form of 6% Convertible Debenture of the Company issued in October 2003.

(5)

4.9 Form of Warrant for Common Stock of the Company issued in October 2003. (5)

4.10 Form of 6% Convertible Debenture of the Company issued in January 2004. (6)

4.11 Form of Warrant for Common Stock of the Company issued in January 2004. (6)

4.12 Form of Warrant for Common Stock of the Company. (9)

4.13 Amendment Agreement, effective October 6, 2005, by and among the Company and debenture holders.(11) 4.14 Form of Series A amended 7% Convertible Debenture of the Company (amending Debenture due October 31, 2005).(11)

4.15 Form of Series B amended 7% Convertible Debenture of the Company (amending Debenture issued on January 26, 2004 and due January 31, 2006).(11)

4.16 Form of Series C amended 7% Convertible Debenture of the Company (amending Debenture issued on July 13, 2004 and due January 31, 2006).(11)

4.17 Form of Warrant issued effective October 6, 2005 for Common Stock of the Company.(11)

10.1 1990 Stock Option Plan.

10.2 1992 Stock Option Plan.

10.3 1993 Employee Stock Purchase Plan.

10.4 Form of Confidentiality, Invention and Non-Compete Agreement.

10.5 Form of Clinical Research Agreement.

10.6 Form of Collaboration Agreement.

10.7 Amended and Restated Employment Agreement by and between the Company and Dr. William A. Carter, dated as of July 1, 1993. (7)

10.8 Employment Agreement by and between the Registrant and Robert E. Peterson, dated April 1, 2001.

10.9 License Agreement by and between the Company and The Johns Hopkins University, dated December 31, 1980.

10.10 Technology Transfer, Patent License and Supply Agreement by and between the Company, Pharmacia LKB Biotechnology Inc., Pharmacia P-LBiochemicals Inc. and E.I. du Pont de Nemours and Company, dated November 24, 1987.

10.11 Pharmaceutical Use Agreement, by and between the Company and Temple University, dated August 3, 1988.

10.12 Assignment and Research Support Agreement by and between the Company, Hahnemann University and Dr. David Strayer, Dr. lsadore Brodsky and Dr. David Gillespie, dated June 30, 1989.

10.13 Lease Agreement between the Company and Red Gate Limited Partnership, dated November 1, 1989, relating to the Company's Rockville, Maryland facility.

10.14 Agreement between the Company and Bioclones (Proprietary) Limited.

10.15 Amendment, dated August 3, 1995, to Agreement between the Company and Bioclones (Proprietary) Limited (contained in Exhibit 10.14).

10.16 Licensing Agreement with Core BioTech Corp.

10.17 Licensing Agreement with BioPro Corp.

10.18 Licensing Agreement with BioAegean Corp.

10.19 Agreement with Esteve.

10.20 Agreement with Accredo (formerly Gentiva) Health Services.

10.21 Agreement with Biovail Corporation International.

10.22 Forbearance Agreement dated March 11, 2003, by and between ISI, the American National Red Cross and the Company.(1)

10.23 Forbearance Agreement dated March 11, 2003, by and between ISI, GP Strategies Corporation and the Company.(1)

10.24 Securities Purchase Agreement, dated March 12, 2003, by and among the Company and the Buyers named therein.(1)

10.25 Registration Rights Agreement, dated March 12, 2003, by and among the Company and the Buyers named therein.(1)

10.26 Securities Purchase Agreement, dated July 10, 2003, by and among the Company and the Buyers named therein.(4)

10.27 Registration Rights Agreement, dated July 10, 2003, by and among the Company and the Buyers named therein.(4)

10.28 Securities Purchase Agreement, dated October 29, 2003, by and among the Company and the Buyers named therein.(5)

10.29 Registration Rights Agreement, dated October 29, 2003, by and among the Company and the Buyers named therein.(5)

10.30 Securities Purchase Agreement, dated January 26, 2004, by and among the Company and the Buyers named therein.(6)

10.31 Registration Rights Agreement, dated January 26, 2004, by and among the Company and the Buyers named therein.(6)

10.32 Memorandum of Understanding with Fujisawa. (8)

10.33 Securities Purchase Agreement, dated July 30, 2004, by and among the Company and the Purchasers named therein.(9)

10.34	Registration Rights Agreement, dated July 30, 2004, by and among the Company and the Purchasers named therein. (9)
10.35	Agreement for services of R. Douglas Hulse, (12)
10.36	Amended and Restated Employment Agreement of Dr. William A. Carter. (10)
10.37	Engagement Agreement with Dr. William A. Carter. (10)
10.38	Amended and restated employment agreement of Dr. William A. Carter (12)
10.39	Amended and restated engagement agreement with Dr. William A. Carter(12)
10.40	Amended and restated engagement agreement with Robert E. Peterson (12)
10.41	Engagement Agreement with Ransom W. Etheridge (12)
10.42	Change in control agreement with Dr. William A. Carter (12)
10.43	Change in control agreement with Dr. William A. Carter (12)
10.44	Change in control agreement with Robert E. Peterson (12)
10.45	Change in control agreement with Ransom Etheridge (12)
10.46	Supply Agreement with Hollister-Stier Laboratories LLC
10.47	Manufacturing and Safety Agreement with Hyaluron, Inc.
10.48	Common Stock Purchase Agreement, dated July 8, 2005, by and among the Company and Fusion Capital.(13)
10.49	Registration Rights Agreement, dated July 8, 2005, by and among the Company and Fusion Capital.(13)
21	Subsidiaries of the Registrant.
23.1	BDO Seidman, LLP consent.(15)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.(15)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.(15)
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.(15)
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.(15)

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(1) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated March 12, 2003 and is hereby incorporated by reference.

(2) Filed with the Securities and Exchange Commission on November 20, 2002 as an exhibit to the Company's Registration Statement on Form 8-A (No. 0-27072) and is hereby incorporated by reference.

(3) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated June 27, 2003 and is hereby incorporated by reference.

(4) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated July 14, 2003 and is hereby incorporated by reference.

(5) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated October 30, 2003 and is hereby incorporated by reference.

(6) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated January 27, 2004 and is hereby incorporated by reference.

(7) Filed with the Securities and Exchange Commission as an exhibit to the Company's quarterly report on Form 10-Q (No. 1-13441) for the period ended September 30, 2001 and is hereby incorporated by reference.

(8) Filed with the Securities and Exchange Commission as an exhibit to the Company's Form S-1 Registration Statement (No. 333-113796) and is hereby incorporated by reference.

(9) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated August 6, 2004 and is hereby incorporated by reference.

(10) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated September 15, 2004 and is hereby incorporated by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K/A-1 (No. 1-13441) filed on October 28, 2005 and is hereby incorporated by reference.

(12) Filed with the Securities and Exchange Commission as an exhibit to the Company's annual report on Form 10-K (No. 1-13441) for the year ended December 31, 2004 and is hereby incorporated by reference.

(13) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated September 15, 2005 and is hereby incorporated by reference.

(14) Filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K (No. 1-13441) dated April 12, 2006 and is hereby incorporated by reference.

(15) Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEMISPHERx BIOPHARMA, INC.

By: /s/ William A. Carter

William A. Carter, M.D.
Chief Executive Officer

July 31, 2006

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange of 1934, as amended, this amended report has been signed below by the following persons on behalf of this Registrant and in the capacities and on the dates indicated.

/s/ William A. Carter --- William A. Carter, M.D.	Chairman of the Board, Chief Executive Officer and Director	July 31, 2006
/s/ Richard Piani --- Richard Piani	Director	July 28, 2006
/s/ Robert E. Peterson --- Robert E. Peterson	Chief Financial Officer	July 31, 2006
/s/ Ransom Etheridge --- Ransom Etheridge	Secretary And Director	July 27, 2006
/s/ William Mitchell --- William Mitchell, M.D., Ph.D.	Director	July 27, 2006
/s/ Steven Spence --- Steven Spence	Director	July 31, 2006
/s/ Iraj E. Kiani --- Iraj E. Kiani, Ph.D.	Director	July 29, 2006

HEMISPHERx BIOPHARMA, INC AND SUBSIDIARIES

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Hemispherx Biopharma, Inc.

We have audited the accompanying consolidated balance sheets of Hemispherx Biopharma, Inc. and subsidiaries as of December 31, 2004 and 2005 and the related consolidated statements of operations, changes in stockholders' equity and comprehensive loss and cash flows for each of the three years in the period ended December 31, 2005. We have also audited the financial statement schedule listed under Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial statement schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our

opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hemispherx Biopharma, Inc. and subsidiaries as of December 31, 2004 and 2005 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein for each of the three years in the period ended December 31, 2005.

As discussed in Note 2, the Company has restated its balance sheet as of December 31, 2004 and the statements of operations, changes in stockholders equity and comprehensive loss and cash flows for the years ended December 31, 2003 and 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hemispherx Biopharma, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 1, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting and adverse opinion on the effectiveness of internal control over financial reporting because of the existence of material weaknesses.

/s/ BDO SEIDMAN, LLP

Philadelphia, Pennsylvania
June 1, 2006

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2004 and 2005
(in thousands)

	2004	2
	(restated)	
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3 & 18)	$ 8,813	$
Short term investments (Note 3 & 6)	7,924	1
Inventories (Note 4)	2,148	
Accounts and other receivables (Note 3)	139	
Prepaid expenses and other current assets	266	
Total current assets	19,290	1
Property and equipment, net (Note 3)	3,303	
Patent and trademark rights, net (Note 3)	908	
Investment (Note 3)	35	

Construction in progress (Note 3)	--	
Deferred financing costs (Note 3)	440	
Advance receivable (Note 8)	1,300	
Other assets	17	
Total assets	$ 25,293	$ 2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 526	$
Accrued expenses (Note 7)	1,012	
Current portion of long-term debt (Notes 3, 8 & 20)	3,818	
Total current liabilities	5,356	
Long-term debt-net of current portion (Notes 3, 8 & 20)	494	
Commitments and contingencies (Notes 11, 13, 14, 16 and 20)		
Stockholders' equity (Notes 9 and 20):		
Preferred stock, par value $0.01 per share, authorized 5,000,000; issued and outstanding; none	--	
Common stock, par value $0.001 per share, authorized 100,000,000 shares; issued and outstanding 49,631,766 and 56,264,155, respectively	50	
Additional paid-in capital	154,609	16
Accumulated other comprehensive loss	(10)	
Accumulated deficit	(135,206)	(14
Total stockholders' equity	19,443	1
Total liabilities and stockholders' equity	$ 25,293	$ 2

See accompanying notes to consolidated financial statements.

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

	Years ended December 31,		
	2003	2004	2005
	(restated)	(restated)	
Revenues:			
Sales of product net	$ 509	$ 1,050	$ 910
Clinical treatment programs	148	179	173
Total Revenues:	657	1,229	1,083
Costs and expenses:			
Production/cost of goods sold	502	2,112	391
Research and development	3,150	3,842	5,218
General and administrative	4,257	6,164	5,389

Total costs and expenses	7,909	12,118	10,998
Write off of investments in unconsolidated affiliates (Note 3c)	--	(373)	--
Interest and other income	80	49	590
Interest expense	(253)	(384)	(388)
Financing costs (Note 8)	(6,470)	(5,290)	(2,733)
Net loss	(13,895)	(16,887)	(12,446)
Deemed Dividend (Note 8)	(1,320)	(4,031)	--
Net loss applicable to common stockholders	$ (15,215)	$ (20,918)	$ (12,446)
Basic and diluted loss per share	$ (.43)	$ (.46)	$ (.24)
Weighted average shares outstanding	35,234,526	45,177,862	51,475,192

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)

See accompanying notes to consolidated financial statements

	Common Stock Shares	Common Stock .001 Par Value	Additional paid-in capital
Balance at December 31, 2002	32,650,178	33	107,155
Debt conversion and interest payments	4,334,916	4	6,741
Fair value ascribed to debenture beneficial conversion features and related warrants issued	--	--	7,119
Loan settlement costs	--	--	538
Deemed dividend upon issuance of inducement warrants	--	--	1,320
Warrants exercised	790,745	1	1,234
Common stock issued in connection with ISI acquisition	1,068,789	1	1,667
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	(491)
Treasury stock purchased	--	--	--
Treasury Stock retired	(339,543)	--	(4,272)
Conversion of minority interest of subsidiary into common stock	347,445	--	946
Stock issued in settlement of debt	215,047	--	474
Stock warrant compensation expense	--	--	237
Net comprehensive loss	--	--	--
Balance December 31, 2003 (restated)	39,067,577	39	122,668
Treasury shares sold	--	--	--
Shares issued for:			
Payment of accounts payable	127,243	--	382

Original Issue Discount on convertible debt	158,104	--	465
Purchase of building	487,028	1	1,626
Conversion of debt	3,691,695	5	7,239
Interest on convertible debt	170,524	--	430
Private placement, net of issuance costs	3,617,306	3	6,981
Warrants exercised	2,268,586	2	5,091
Stock Issued with convertible debt	43,703	--	45
Fair value ascribed to debenture beneficial conversion features and related warrant issued	--	--	2,481
Deemed dividend upon issuance of inducement warrants	--	--	4,031
Loan settlement costs	--	--	149
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	491
Options and warrants issued for services	--	--	2,000
Revaluation of redemption obligation	--	--	530
Net comprehensive loss	--	--	--
Balance December 31, 2004 (restated)	49,631,766	50	154,609
Shares issued for:			
Payment of accounts payable	338,995	--	413
Conversion of debt	1,358,887	1	2,219
Warrants converted	5,000	--	9
Interest on convertible debt	255,741	409	--
Private placement, net of issuance costs	4,673,766	5	8,015
Options and warrants issued for services	--	--	391
Conversion price adjustment	--	--	140
Discount resulting from debt refinance	--	--	189
Net comprehensive loss	--	--	--
Balance December 31, 2005	56,264,155	$ 56	$166,394

	Accumulated deficit	Treasury stock shares	Treasury Stock
Balance at December 31, 2002	(99,073)	543,206	(4,520)
Debt conversion and interest payments	--	--	--
Fair value ascribed to debenture beneficial conversion features and related warrants issued	--	--	--
Loan settlement costs	--	--	--
Deemed dividend upon issuance of inducement warrants	(1,320)	--	--
Warrants exercised	--	--	--
Common stock issued in connection with ISI acquisition	--	--	--
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	--
Treasury stock purchased	--	43,000	(83)
Treasury Stock retired	--	(339,543)	4,144
Conversion of minority interest of subsidiary into common stock	--	--	--
Stock issued in settlement of debt	--	(246,220)	457
Stock warrant compensation expense	--	--	--
Net comprehensive loss	(13,895)	--	--
Balance December 31, 2003 (restated)	(114,288)	443	(2)
Treasury shares sold	--	(443)	2
Shares issued for:			
Payment of accounts payable	--	--	--

Original Issue Discount on convertible debt	--	--	--
Purchase of building	--	--	--
Conversion of debt	--	--	--
Interest on convertible debt	--	--	--
Private placement, net of issuance costs	--	--	--
Warrants exercised	--	--	--
Stock Issued with convertible debt	--	--	--
Fair value ascribed to debenture beneficial conversion features and related warrant issued	--	--	--
Deemed dividend upon issuance of inducement warrants	(4,031)	--	--
Loan settlement costs	--	--	--
Reclassification of redeemable Common Stock in connection with ISI acquisition	--	--	--
Options and warrants issued for services	--	--	--
Revaluation of redemption obligation	--	--	--
Net comprehensive loss	(16,887)	--	--
Balance December 31, 2004 (restated)	(135,206)	--	--
Shares issued for:			
Payment of accounts payable	--	--	--
Conversion of debt	--	--	--
Warrants converted	--	--	--
Interest on convertible debt	--	--	409
Private placement, net of issuance costs	--	--	--
Options and warrants issued for services	--	--	--
Conversion price adjustment	--	--	--
Discount resulting from debt refinance	--	--	--
Net comprehensive loss	(12,446)	--	--
Balance December 31, 2005	$(147,652)	--	$ --

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(in thousands)

	Years ended December 31,		
	2003	2004	2005
Cash flows from operating activities:	(restated)	(restated)	
Net loss	$(13,895)	$(16,887)	$(12,446)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation of property and equipment	80	113	114
Amortization and write off of patent and trademark rights	127	327	281
Amortization of deferred financing costs	6,470	5,290	2,733
Write off of Investments in unconsolidated affiliates			

	--	373	--
Stock option and warrant compensation and service expense	237	2,000	391
Inventory reserve	--	225	(125)
Interest on Convertible Debt	253	430	409
Changes in assets and liabilities:			
Inventory	(1,429)	523	505
Accounts and other receivables	1,225	143	43
Prepaid expenses and other current assets	(98)	(96)	124
Accounts payable	(551)	36	687
Accrued expenses	553	277	53
Other assets	6	6	--
Net cash used in operating activities	(7,022)	(7,240)	(7,231)
Cash flows from investing activities:			
Purchase of property and equipment, net	(19)	(150)	(175)
Additions to patent and trademark rights	(154)	(208)	(168)
Construction in progress	--	--	(827)
Maturity of short term investments	520	1,496	7,934
Purchase of short term investments	(1,496)	(7,934)	(12,548)
Deferred acquisition costs	(638)	--	--
Net cash used in Investing Activities	(1,787)	(6,796)	(5,784)

(CONTINUED)
HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
(in thousands)

	Years ended December 31,		
	2003	2004	2005
Cash flows from financing activities:	(restated)	(restated)	
Proceeds from issuance of common stock, net	$ --	$ 6,984	$ 8,020
Deferred financing costs	(835)	(542)	--
Proceeds from long-term borrowing	11,300	7,550	--
Advance receivable	(1,300)	--	--
Proceeds from exercise of stock warrants	1,235	5,093	9
Purchase of treasury stock	(83)	--	--

Net cash provided by financing Activities	10,317	19,085	8,029
Net increase (decrease) in cash and cash equivalents	1,508	5,049	(4,986)
Cash and cash equivalents at beginning of year	2,256	3,764	8,813
Cash and cash equivalents at end of year	$ 3,764	$ 8,813	$ 3,827
Supplemental disclosures of cash flow information:			
Issuance of common stock for accounts payable and accrued expenses	$ 931	$ 382	$ 413
Issuance of Common Stock for Acquisition of ISI assets	$ 1,667	$ 1,626	$ --
Stock Options and Warrants Issued for Services	$ 237	$ 2,000	$ 391
Issuance of Common Stock for Debt Conversion, Interest Payments and debt payments	$ 6,741	$ 7,669	$ 2,628
Common Stock Issued for Conversion of Minority Interest in Subsidiary	$ 946	--	--

See accompanying notes to consolidated financial statements.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Business

Hemispherx Biopharma, Inc. and subsidiaries (the Company) is a biopharmaceutical company engaged in the clinical development, manufacture, marketing and distribution of new drug entities based on natural immune system enhancing technologies for the treatment of viral and immune based chronic disorders. The Company was founded in the early 1970s, as a contract researcher for the National Institutes of Health. The Company has established a strong foundation of laboratory, pre-clinical, and clinical data with respect to the development of nucleic acids to enhance the natural antiviral defense system of the human body and to aid the development of therapeutic products for the treatment of chronic diseases. The Company owns a U.S. Food and Drug Administration ("FDA") approved GMP (good manufacturing practice) manufacturing facility in New Jersey.

The Company's flagship products include Ampligen(R) and Alferon N Injection(R). Ampligen(R) is an experimental drug undergoing clinical development for the treatment of: Myalgic Encephalomyelitis/Chronic Fatigue Syndrome ("ME/CFS" or "CFS"), and HIV. In August 2004, we completed a Phase III clinical trial ("AMP 516") treating over 230 ME/CFS patients with Ampligen(R)

and are in the process of preparing a new drug application ("NDA") to be filed with the FDA.

In March 2004, the Company completed the step-by-step acquisition from Interferon Sciences, Inc. ("ISI") of ISI's commercial assets, Alferon N Injection(R) inventory, a worldwide license for the production, manufacture, use, marketing and sale of Alferon N Injection(R), as well as, a 43,000 square foot manufacturing facility in New Jersey and the acquisition of all intellectual property related to Alferon N Injection(R). Alferon N Injection(R) is a natural alpha interferon that has been approved by the FDA for commercial sale for the intra-lesional treatment of refractory or recurring external genital warts in patients 18 years of age or older. The acquisition was completed in Spring 2004 with the acquisition of all world wide commercial rights.

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 subsidiaries include Hemispherx Biopharma Europe N.V./S.A. established in Belgium in 1998 and Hemispherx Biopharma Europe S. A. incorporated in Luxemburg in 2002, which have limited or no activity. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Restatements

(a) Based on SEC guidance presented at the 2005 annual AICPA National Conference on current SEC and PCAOB developments, the Company re-evaluated its accounting for its March 2003, July 2003, October 2003, January 2004 and July 2004 Debentures (collectively, "the Debentures") to determine whether the embedded conversion options required bifurcation and fair value accounting in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock". The Company concluded that bifurcation was not required and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") should have been applied. The Company did initially apply EITF 00-27, however as part of performing an analysis on the guidelines set forth in EITF 00-27 it was determined that the initial accounting treatment for the Debentures and conversion price resets that was originally applied and reflected in the financial statements included in the Company's Annual Reports on Form 10-K for the years ended December 31, 2004 and 2003, and in the Company's Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 were not correctly applied and that, therefore, a restatement of the Company's financial statements for the periods referenced above was required. To properly account for the initial calculation of the discount and the conversion price resets triggered upon the issuance of the issuance of the October 2003 Debenture and the August 2004 Private Placement (See Notes 8 & 9 below for more details on these resets), it was determined, under guidance from EITF 00-27 that the debt discount should be restated for the Debentures. The total impact of this restatement on the Company's statement of operations was to decrease the net loss applicable to common stockholders for the year ended December 31, 2004 by $2,959,000 or $0.07 per share, and to increase the net loss applicable to common stockholders by $287,000 or $0.01 per share for the year ended December 31, 2003.

(b) The estimation of fair value ascribed to and the accounting treatment of the investment banking fees paid to Cardinal Capital, LLC ("Cardinal") in connection with the Debenture issuances, at inception, was inaccurately reflected in the financial statements included in the Company's Annual Report on Form 10-K for the years ended December 31, 2004 and 2003, and the Company's Quarterly reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 and as a result a restatement of the Company's financial statements for the periods referenced above was required. In connection with the initial recording of the Debentures mentioned above, it was determined that the fair value of the warrants issued as investment banking fees paid to Cardinal, be accounted for as a discount to the Debentures. These investment banking fees should have been capitalized as deferred financing costs and amortized over the life of the Debentures or charged to earnings on the earlier conversion thereof. In addition, the initial calculation of the fair value of the warrants issued to Cardinal as part of the Debenture issuances was determined to be computed incorrectly at the time of issuance. The total impact of this restatement on the Company's statement of operations was to decrease the net loss applicable to common stockholders for the year ended December 31, 2004 by $263,000 or $0.01 per share and to increase the net loss applicable to common stockholders for the year ended December 31, 2003 by $158,000 or $0.00 per share.

(c) The accounting treatment set forth in FASB Statement No. 123, "Accounting for Stock-Based Compensation", for the issuance of the June 2008, May 2009 and June 2009 Warrants (collectively "the Warrants") (See Note 8 below for more details on these transactions) that was originally interpreted and reflected in the financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2003 and 2004, was not correctly applied and as a result a restatement of our financial statements for the period referenced above was required. The Warrants issued as incentive to exercise prior warrant issuances should be reflected as a deemed dividend at the date of issuance where previously these warrants were either recorded as additional debt discount or as a financing charge at date of issuance. The total impact of this restatement on our statement of operations was to decrease finance charges for the years ended December 31, 2003 and 2004 by $1,320,000 and $4,031,000 or $0.04 and $0.08 per share, respectively and increase the net loss applicable to common stockholders due to the deemed dividend for the years ended December 31, 2003 and 2004 by $1,320,000 and $4,031,000 or $0.04 and $0.08 per share, respectively.

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

HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES
Audited Consolidated Balance Sheet
(in Thousands)

	December 31, 2004 As previously Reported	Adjustments	December 31, 2004 Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,813		$ 8,813
Short term investments	7,924		7,924
Inventory	2,148		2,148
Accounts and other receivables	139		139
Prepaid expenses and other current assets	266		266
Total current assets	19,290		19,290
Property and equipment, net	3,303		3,303
Patent and trademark rights, net	908		908
Investment	35		35
Deferred financing costs	319	121 (b)	440
Advance receivable	1,300		1,300
Other assets	17		17
Total assets	$ 25,172	121	$ 25,293
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 526		$ 526
Accrued expenses	1,012		1,012
Current portion of long-term debt	3,248	570 (a)(b)(c)	3,818
Total current liabilities	4,786	570	5,356
Long-term debt-net of current portion	305	189 (a)(b)(c)	494
Commitments and contingencies			
Stockholders' equity:			
Preferred stock	--	--	--
Common stock	50		50
Additional paid-in capital	158,024	(3,415) (a)(b)(c)	154,609
Accumulated other comprehensive income	(10)		(10)
Accumulated deficit	(137,983)	2,777 (a)(b)(c)	(135,206)
Total stockholders' equity	20,081	(638)	19,443
Total liabilities and stockholders' equity	$ 25,172	121	$ 25,293

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

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

(c) Includes restatement adjustments for the issuance of the June 2008, May 2009 and June 2009 warrants as incentive to exercise prior warrant issuance, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Audited Consolidated Statements of Operations
(in thousands, except share and per share data)
Year Ended December 31, 2003

	December 31, 2003 As previously Reported	Adjustments	December 31, 2003 Restated
Revenues:			
Sales of product net	$ 509		$ 509
Clinical treatment programs	148		148
Total Revenues:	657		657
Costs and expenses:			
Production/cost of goods sold	502		502
Research and development	3,150		3,150
General and administrative	4,257		4,257
Total costs and expenses	7,909		7,909
Interest and other income	80		80
Interest expense	(253)		(253)
Financing costs	(7,345)	875 (a)(b)(c)	(6,470)
Net loss	$ (14,770)	875 (a)(b)(c)	$ (13,895)
Deemed dividend	--	(1,320) (c)	(1,320)
Net loss applicable to common stockholders	$ (14,770)	(445) (a)(b)(c)	$ (15,215)
Basic and diluted loss per share	$ (.42)	$ (0.01)	$ (.43)
Weighted average shares outstanding	35,234,526		35,234,526

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

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

(c) Includes restatement adjustments for the issuance of the June 2008, May 2009 and June 2009 warrants as incentives to exercise prior warrant issuance, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES
Audited Consolidated Statements of Operations
(in thousands, except share and per share data)
Year Ended December 31, 2004

	December 31, 2004 As previously Reported	Adjustments		December 31, 2004 Restated
Revenues:				
Sales of product net	$ 1,050			$ 1,050
Clinical treatment programs	179			179
Total Revenues:	1,229			1,229
Costs and expenses:				
Production/cost of goods sold	2,112			2,112
Research and development	3,842			3,842
General and administrative	6,164			6,164
Total costs and expenses	12,118			12,118
Equity loss and write off of investments in unconsolidated affiliates	(373)			(373)
Interest and other income	49			49
Interest expense	(384)			(384)
Financing costs	(12,543)	7,253	(a)(b)(c)	(5,290)
Net loss	$ (24,140)	7,253		$ (16,887)
Deemed dividend	--	(4,031)	(c)	(4,031)
Net loss applicable to common stockholders	$ (24,140)	3,222		$ (20,918)
Basic and diluted loss per share	$ (.53)	$ 0.07		$ (.46)
Weighted average shares outstanding	45,177,862			45,177,862

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

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

(c) Includes restatement adjustments for the issuance of the June 2008, May 2009 and June 2009 warrants as incentive to exercise prior warrant issuance, as described above.

The Company and the Company's audit committee have discussed the above errors and adjustments with the Company's current independent registered public accounting firm and have determined that a restatement is necessary for the periods described above. This Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 reflects the changes for the annual results for the years ended December 31, 2003 and December 31, 2004. The Company will file the Company's Quarterly Reports on Form 10-Q/A for the quarterly periods ended March

31, 2005, June 30, 2005 and September 30, 2005, which will include the quarters ended in 2004, as soon as practicable in connection with the restatements described above.

(3) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash equivalents consist of money market certificates and overnight repurchase agreements collateralized by money market securities with original maturities of less than three months, with both a cost and fair value of $8,813,000 and $3,827,000 at December 31, 2004 and 2005, respectively.

(b) Short-term Investments

Investments with original maturities of more than three months and less than 12 months and marketable equity securities are considered available for sale. The investments classified as available for sale include debt securities and equity securities carried at estimated fair value of $7,924,000 and $12,377,000 at December 31, 2004 and 2005 respectively. The unrealized gains and losses are recorded as a component of shareholders' equity.

(c) Investments in unconsolidated affiliates

Investments in companies in which the Company owns 20% or more and not more than 50% are accounted for using the equity method of accounting.

Investments in companies in which the Company owns less than 20% and does not exercise a significant influence are accounted for using the cost method of accounting.

In May 2000, the Company acquired an interest in Chronix Biomedical Corp. ("CHRONIX"). Chronix focuses upon the development of diagnostics for chronic diseases. The Company issued 100,000 shares of common stock to Chronix toward a total equity investment of $700,000. Pursuant to a strategic alliance agreement, the Company provided Chronix with $250,000 for research and development in an effort to develop intellectual property on potential new products for diagnosing and treating various chronic illnesses such as ME/CFS. These costs were expensed as incurred. The strategic alliance agreement provides the Company certain royalty rights with respect to certain diagnostic technology developed from this research and a right of first refusal to license certain therapeutic technology developed from this research. The strategic alliance agreement provides the Company with a royalty payment of 10% of all net sales of diagnostic technology developed by Chronix for diagnosing Chronic Fatigue Syndrome, Gulf War Syndrome and Human Herpes Virus-6 associated diseases. The royalty continues for the longer of 12 years from September 15, 2000 or the life of any patent(s) issued with regard to the diagnostic technology. The strategic alliance agreement also provides the Company with the right of first refusal to acquire an exclusive worldwide license for any and all therapeutic technology developed by Chronix on or before September 14, 2012 for treating Chronic Fatigue Syndrome, Gulf War Syndrome and Human Herpes Virus-6 associated diseases. During the quarters ended December 31, 2002 and September 30, 2004, the Company recorded a non-cash charge of $292,000 and $373,000, respectively, with respect to the Company's investment in Chronix. This impairment reduces the Company's carrying value to reflect a permanent decline in Chronix's market value based on its then proposed equity offerings.

(d) Property and Equipment

	(in thousands) December 31,	
	2004	2005
Land and buildings	$3,316	$3,371
Furniture, fixtures, and equipment	786	907
Leasehold improvements	85	85
Total property and equipment	4,187	4,363
Less accumulated depreciation and amortization	884	999
Property and equipment, net	$3,303	$3,364

Property and equipment consist of land, building, furniture, fixtures, office equipment, and leasehold improvements and is recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from five to thirty-nine years. Depreciation and amortization expense was $80,000, $113,000 and $114,000 for 2003, 2004 and 2005, respectively.

Construction in progress consists of funds used for the construction and installation of the Company's Ampligen(R) raw material production line within the Company's New Jersey facility. As of December 31, 2005, construction in progress was $821,000. The Company estimates the total cost of establishing the production line to be $1,900,000.

(e) Patent and Trademark Rights

Patents and trademarks are stated at cost (primarily legal fees) and are amortized using the straight line method over the established useful life of 17 years. The Company reviews its patents and trademark rights periodically to determine whether they have continuing value. Such review includes an analysis of the patent and trademark's ultimate revenue and profitability potential. Management's review addresses whether each patent continues to fit into the Company's strategic business plans. During the years ended December 31, 2003, 2004 and 2005, the Company decided not to pursue the technology in certain countries for strategic reasons and recorded impairment charges of $5,000, $223,000 and $194,000 respectively. Amortization expense was $122,000, $104,000 and $87,000 in 2003, 2004 and 2005, respectively. The accumulated amortization as of December 31, 2003, 2004 and 2005 is $2,150,000, $1,807,000 and $1,572,000, respectively.

As of December 31, 2005, the weighted average remaining life of the patents and trademarks was 9 years. Amortization of patents and trademarks for each of the next five years is as follows: 2006 - $86,000, 2007 - $86,000, 2008 - $86,000, 2009 - $86,000 and 2010 - $86,000.

(f) Revenue and License Fee Income

The Company executed a Memorandum of Understanding (MOU) in January 2004 with Astellas Pharma ("Astellas"), formally Fujisawa Deutschland GmbH, a major pharmaceutical corporation, granting them an exclusive option for a limited

number of months to enter a Sales and Distribution Agreement with exclusive rights to market Ampligen(R) for ME/CFS in Germany, Austria and Switzerland. The Company received an initial fee of 400,000 Euros (approximately $497,000 US) in 2004. On November 9, 2004, Astellas exercised their right to terminate the MOU. The Company did not agree on the process to be utilized in certain European Territories for obtaining commercial approval for the sale of Ampligen(R) in the treatment of patients suffering from Chronic Fatigue Syndrome (CFS). Instead of a centralized procedure, and in order to obtain an earlier commercial approval of Ampligen(R) in Europe, the Company has determined to follow a decentralized filing procedure which was not anticipated in the MOU. The Company believed that it was in the best interest of the Company's stockholders to potentially accelerate entry into selected European markets whereas the original MOU specified a centralized registration procedure. Pursuant to the agreement of the parties the Company refunded 200,000 Euros ($248,000 USD) to Astellas during the fourth quarter 2004. The Company recorded the remaining 200,000 Euros ($271,000 USD and $241,000 USD) as an accrued liability as of December 31, 2004 and 2005, respectively.

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

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

(g) 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, amounted to 19,566,217, 20,413,024 and 25,635,142 shares, are excluded from the calculation of diluted net loss per share for the years ended December 31, 2003, 2004 and 2005, respectively, since their effect is antidilutive.

(h) Accounting for Income taxes

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits, which are not expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

(i) Comprehensive loss

Comprehensive loss consists of net loss and net unrealized gains (losses) on securities and is presented in the consolidated statements of changes in stockholders' equity and comprehensive loss.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and

assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

(k) Foreign currency translations

Assets and liabilities of the Company's foreign operations are generally translated into U.S. dollars at current exchange rates as of balance sheet date. Revenues and expenses are translated at average exchange rates during each period. Transaction gains and losses that arise from exchange rate fluctuations are included in the results of operations as incurred. The resulting translation adjustments are immaterial for all years presented and are included in interest and other income on the consolidated statement of operations.

(l) Recent Accounting Standard and Pronouncements:

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). On April 14, 2005, the Securities and Exchange Commission issued an amendment to Rule 4-01 of Regulation S-X that allows companies to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period that begins after June 15, 2005 as originally required. Accordingly, the Company will adopt SFAS 123R effective January 1, 2006 using the "modified prospective" method in which compensation cost is recognized beginning with the effective date based on (a) the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. In addition, the Company expects to continue to utilize the Black-Scholes option-pricing model, which is an acceptable option valuation model in accordance with SFAS 123R, to estimate the value of stock options granted to employees.

Beyond those restricted stock and stock option awards previously granted, the Company cannot predict with certainty the impact of SFAS 123R on its future consolidated financial statements as the type and amount of such awards are determined on an annual basis and encompass a potentially wide range depending upon the compensation decisions made by the Compensation Committee of the Company's Board of Directors. SFAS 123R also requires the benefits of tax deductions in excess of compensation cost recognized in the financial statements to be reported as a financing cash flow, rather than an operating cash flow as currently required under Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" ("SFAS 95"). This requirement, to the extent it exists, will decrease net operating cash flows and increase net financing cash flows in periods subsequent to adoption. The Company believes this pronouncement will have a material impact on its consolidated financial statements.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") which expresses the view of the SEC Staff regarding the interaction of SFAS 123R and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements. The Company believes that the views provided in SAB 107 are consistent with the approach taken in the valuation and accounting associated with share-based compensation issued in prior periods as well as those issued during 2005.

In June 2005, the FASB's Emerging Issues Task Force ("EITF") issued EITF Issue No. 05-02 "The Meaning of "Conventional Convertible Debt Instrument" in

EITF Issue 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock", which retains the exception in paragraph 4 of EITF Issue No. 00-19 for conventional debt instruments. Those instruments in which the holder has an option to convert the instrument into a fixed number of shares (or a corresponding amount of cash at the issuer's discretion) and its ability to exercise the option is based on either (a) the passage of time or (b) a contingent event, should be considered "conventional" for purposes of applying that exception. The consensus should be applied on a prospective basis for new or modified instruments starting from the third quarter of 2005. The adoption of EITF No. 05-02 did not have a material effect on the Company's consolidated financial statements or results of operations.

In November 2005, FASB issued FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP FAS 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether an impairment is other-than-temporary, and on measuring such impairment loss. FSP FAS 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP FAS 115-1 is required to be applied to reporting periods beginning after December 15, 2005. The Company is required to adopt FSP FAS 115-1 in the first quarter of 2006. The Company does not expect the adoption of this statement to have a material impact on the Company's consolidated results of operations or financial condition.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"). SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is required to be adopted in the first quarter of 2006. The Company has determined that the adoption of SFAS No. 151 will not have a material impact on the consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 (SFAS 153"), "Exchanges of Non-monetary Assets-an amendment of APB Opinion No. 29." SFAS 152 addresses the measurement of exchanges of non-monetary assets. It eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29 "Accounting for Non-monetary Transactions" and replaces it with an exception for exchanges that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. As required by SFAS 153, the Company adopted this new accounting standard effective July 1, 2005. The adoption of SFAS 153 did not have a material impact on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 establishes retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 also provides guidance for determining whether retrospective application is impractical. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company

does not expect that the adoption of SFAS No. 154 will have a material impact on its results of operations or financial position.

(m) Research and Development Costs

Research and development related to both future and present products are charged to operations as incurred.

(n) Stock Based Compensation

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

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

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

	December 31,		
	2003	2004	2005
Risk-free interest rate	5.23%	2.25 - 3.4%	4.81%
Expected dividend yield	--	--	--
Expected lives	2.5 yrs	5-10 yrs	2.5-5 yrs
Expected volatility	98.07%	68.92 - 71.16%	78.12%
Weighted average fair value of options and warrants issued in the years 2003, 2004 and 2005 respectively	$1,825,000	$638,000	$1,371,000

Had compensation cost for the Company's option plan been determined using the fair value method at the grant dates, the effect on the Company's net loss and loss per share for the years ended December 31, 2003, 2004, and 2005 would have been as follows:

For the years ended December 31,	2003	2004	2005
	(restated)	(restated)	
	(In Thousands except for per share data)		
Net loss applicable to common stockholders, as reported	$(15,215)	$(20,918)	$(12,446)
Add: Stock based compensation included in net loss as reported, net of related tax effects	--	1,769	391
Deduct: Stock based compensation determined under fair value based method for all awards, net of related tax effects	(1,825)	(638)	(1,371)

Pro forma - net loss	$(17,040)	$(19,787)	$(13,426)
Basic and diluted loss per share - as reported	$ (.43)	$ (.46)	$ (.24)
Basic and diluted loss per share - pro forma	$ (.48)	$ (.44)	$ (.26)

For stock warrants or options granted to non-employees, the Company measures fair value of the equity instruments utilizing the Black-Scholes method if that value is more reliably measurable than the fair value of the consideration or service received. The Company amortizes such cost over the related period of service.

The exercise price of all stock warrants granted was equal to or greater than the fair market value of the underlying common stock as defined by APB 25 on the date of the grant.

Stock compensation expense in 2004 resulted from having a limited number of shares of Common Stock authorized but not issued or reserved for issuance upon conversion or exercise of outstanding convertible and exercisable securities such as debentures, options and warrants prior to the Company's annual meeting of stockholders in September 2003. Prior to the meeting, to permit consummation of the sale of the July 2003 Debentures and the related warrants, the Chief Executive Officer, Dr. Carter, agreed that he would not exercise his warrants or options unless and until the Company's stockholders approve an increase in the Company's authorized shares of common stock. For Dr. Carter's waiver of his right to exercise certain options and warrants prior to approval of the increase in the Company's authorized shares, the Company agreed to compensate Dr. Carter and issued Dr. Carter 1,450,000 warrants to purchase common stock at $2.20 per share in 2003 that vested in the first quarter 2004 upon the second ISI asset closing. The Company recorded a charge to stock compensation expense of $1,769,000 for the intrinsic value of these warrants in the first quarter of 2004.

(o) Accounts Receivable

Concentration of credit risk, with respect to accounts receivable, is limited due to the Company's credit evaluation process. The Company does not require collateral on its receivables. The Company's receivables primarily consist of amounts due from wholesale drug companies as of December 31, 2004 and 2005 and all amounts are deemed collectible. The Company has agreements requiring its wholesaler drug companies to assess credit worthiness. The Company assesses collectability monthly by review of the accounts receivable aging report.

(p) Deferred Financing Issuance Costs

Deferred financing issuance costs represent costs incurred by the Company to issue convertible debt instruments. The costs are being amortized in accordance with the interest method of accounting over the terms of the debt.

(q) Convertible Securities with Beneficial Conversion Features

The March 2003, July 2003, October 2003, January 2004 and July 2004 Debenture issuances and related embedded conversion features and warrants issuances were accounted for in accordance with EITF 98-5: Accounting for convertible securities with beneficial conversion features or contingency adjustable

conversion and with EITF No. 00-27: Application of issue No. 98-5 to certain convertible instruments. The Company determined the fair values to be ascribed to detachable warrants issued with the convertible debentures utilizing the Black-Scholes method. Discounts derived from determining the beneficial conversion feature and fair value of the warrants based on the relative fair value of the proceeds are amortized to financing costs over the remaining life of the debenture in accordance with the effective interest method of accounting. The unamortized discount upon the conversion of the debentures is expensed to financing costs on a pro-rata basis.

(4) Inventories

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

Inventories consist of the following:

	(in thousands) December 31,	
	2004	2005
Raw materials and work in process	$1,711	$ 444
Finished goods, net of reserves of $225,000 and $100,000 at December 31, 2004 and 2005	437	1,323
	$2,148	$1,767

(5) Acquisition of Assets of Interferon Sciences, Inc.

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

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

Pursuant to the acquisition agreement, the Company satisfied other liabilities of ISI which were past due and secured by a lien on ISI's real estate and pays ISI a 6% royalty on the net sales of products containing natural alpha interferon.

On May 30, 2003, the Company issued the shares to GP Strategies and the American National Red Cross. Pursuant to the Company's agreements with ISI and these two

creditors, the Company registered the foregoing shares for public sale. As a result at December 31, 2003 the guaranteed value of these shares ($491,000), which had not been sold by these two creditors, were reclassified to redeemable common stock. At December 31, 2004, all shares had been sold by these two creditors and the redeemable common stock was reclassified to equity.

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

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

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

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

The following table represents the audited pro forma results of operations as though the ISI acquisitions had occurred on January 1, 2003.

	Year Ended December 31, 2003
	(in thousands except for share data)
Net revenues	$ 899
Expenses, as restated	(15,340)
Net Loss, as restated	(14,441)
Deemed dividend	(1,320)
Net loss applicable to common stockholders	(15,761)
Basic and diluted loss per share	$ (.45)
Weighted average shares outstanding	35,326,594

(6) Short-term investments:

Securities classified as available for sale consisted of:

	December 31, 2004			
Name of security	Cost	Market value	Unrealized gain (loss)	Maturity Date
General Motors	$ 988,000	$ 991,000	$ 3,000	May, 2005

Ford Motor Credit	3,194,000	3,142,000	(52,000)	February, 2006
General Motors	3,655,000	3,591,000	(64,000)	January, 2006
Accrued interest acquired	97,000	200,000	103,000	
	$7,934,000	$7,924,000	$(10,000)	

No investment securities were pledged to secure public funds at December 31, 2004.

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2004.

		Less than 12 months		12 months or longer		Total	
Name of security	Number of Securities	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	
Ford Motor Credit	1	$3,142,000	$ --	$--	$--	$--	
General Motors	1	3,591,000	--	--	--	--	
Total temporary impairment securities	2	$6,733,000	(116,000)	--	--	--	

In management's opinion, the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. There are two securities in the less than 12 month category.

The Company has the ability to hold these securities until maturity or market price recovery; therefore, management believes that the unrealized losses represent temporary impairment of the securities.

	December 31, 2005			
Name of security	Cost	Market value	Unrealized gain (loss)	Maturity date
Ford Motor Credit	$ 3,194,000	$ 3,043,000	$(151,000)	February, 2006
General Motors	3,655,000	3,497,000	(158,000)	January, 2006
General Electric	791,000	790,000	(1,000)	April, 2006
American General Finance	788,000	787,000	(1,000)	May, 2006
LaSalle Bank Corp.	784,000	782,000	(2,000)	June, 2006
Prudential Corp.	783,000	781,000	(2,000)	July, 2006
Federal Home Loan	781,000	780,000	(1,000)	July, 2006
General Electric	775,000	774,000	(1,000)	September, 2006
AIG Discount Commercial Paper	946,000	943,000	(3,000)	September, 2006
Accrued interest acquired	51,000	200,000	149,000	

$12,548,000	$12,377,000	$(171,000)

No investment securities were pledged to secure public funds at December 31, 2005.

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2005.

		Less than 12 months		12 months or longer		T
Name of security	Number of Securities	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value
Ford Motor Credit	1	$ --	$ --	$3,043,000	$(151,000)	$ 3,043,000
General Motors	1	--	--	3,497,000	(158,000)	3,497,000
Accrued interest acquired		--	--	200,000	149,000	200,000
General Electric	2	1,564,000	(2,000)	--	--	1,564,000
American General Finance	1	787,000	(1,000)	--	--	787,000
LaSalle Bank Corp	1	782,000	(2,000)	--	--	782,000
Prudential Corp.	1	781,000	(2,000)	--	--	781,000
Federal Home Loan	1	780,000	(1,000)	--	--	780,000
AIG Discount Commercial Paper	1	943,000	(3,000)	--	--	943,000
Total temporary impairment securities	9	$5,637,000	$(11,000)	$6,740,000	$(160,000)	$12,377,000

In management's opinion, the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. There are seven securities in the less than 12 months category and two in the more than a twelve month category.

The Company has the ability to hold these securities until maturity or market price recovery; therefore, management believes that the unrealized losses represent temporary impairment of the securities.

(7) Accrued Expenses

Accrued expenses at December 31, 2004 and 2005 consists of the following:

(in thousands)
December 31,

	2004	2005
Compensation	385	337
Interest	112	91
Commissions and royalties	47	14
Professional fees	50	42
Other expenses	147	140
Other liability	271	241
	$1,012	$865

(8) Debenture Financing

Long term debt consists of the following:

	(in thousands)	
	December 31, 2004	December 31, 2005
	(Restated)	
October 2003	$ 2,071	$2,071
January 2004	3,083	1,365
July 2004	2,000	1,500
Total	7,154	4,936
Less Discounts	(2,842)	(765)
Balance	4,312	4,171
Less Current Portion of long-term debt (net of discounts of $2,377)	3,818	--
Total long-term debt	$ 494	$4,171

As of December 31, 2004, the Company made installment payments of $777,777 and the investors converted an aggregate $13,062,328 principal amount of debt from the debentures as noted below:

Debenture	Original Principal Amount	Debt Conversion to Common Shares	Installment payments in Common Shares	Remaining Principal Amount	Common Shares issued for Conversion	Comm is inst
March 2003	$ 5,426,000	$ 5,426,000	$ --	$ --	3,716,438	
July 2003	5,426,000	5,426,000	--	--	2,870,900	
October 2003	4,142,357	2,071,178	--	2,071,179	1,025,336	
January 2004	4,000,000	139,150	777,777	3,083,073	55,000	3
July 2004	2,000,000	--	--	2,000,000	--	
Totals	$20,994,357	$13,062,328	$777,777	$7,154,252	7,667,674	3

As of December 31, 2005, the Company made installment payments of $2,388,888 and investors converted an aggregate $13,669,688 principal amount of debt from the debentures as noted below:

Debenture	Original Principal Amount	Debt Conversion to Common Shares	Installment payments in Common Shares	Remaining Principal Amount	Common Shares issued for Conversion	Comm is inst
Mar 2003	$ 5,426,000	$ 5,426,000	$ --	$ --	3,716,438	
Jul 2003	5,426,000	5,426,000	--	--	2,870,900	
Oct 2003	4,142,357	2,071,178	--	2,071,179	1,025,336	
Jan 2004	4,000,000	746,510	1,888,888	1,364,602	347,000	1,
Jul 2004	2,000,000	--	500,000	1,500,000	--	
Totals	$20,994,357	$13,669,688	$2,388,888	$4,935,781	7,959,674	1,

March 2003 Debentures

On March 12, 2003, the Company issued an aggregate of $5,426,000 in principal amount of 6% Senior Convertible Debentures due January 2005 (the "March 2003 Debentures") and an aggregate of 743,288 warrants to two investors in a private placement for aggregate gross proceeds of $4,650,000. Pursuant to the terms of the March 2003 Debentures, $1,550,000 of the proceeds from the sale of the March 2003 Debentures was held back and to be released to the Company if, and only if, the Company acquired ISI's facility with in a set timeframe (see Note 5 above). These funds were released to the Company in July 2003 although the Company had not acquired ISI's facility at that time. The Company recorded an additional debt discount of $259,000 upon receiving the held back proceeds of $1,550,000 in July 2003. The March 2003 Debentures were to mature on January 31, 2005 and bore interest at 6% per annum, payable quarterly in cash or, subject to satisfaction of certain conditions, common stock. Any shares of common stock issued to the investors as payment of interest were valued at 95% of the average closing price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms and conditions of the March 2003 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

The March 2003 Debentures were convertible at the option of the investors at any time through January 31, 2005 into shares of the Company's common stock. The conversion price under the March 2003 Debentures was fixed at $1.46 per share, subject to adjustment for anti-dilution protection for issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect. In addition, in the event that the Company did pay the redemption price at maturity, the Debenture holders, at their option, could have converted the balance due at the lower of (a) the conversion price then in effect and (b) 95% of the lowest closing sale price of the Company's common stock during the three trading days ending on and including the conversion date.

The investors also received detachable Warrants to acquire at any time

through March 12, 2008 an aggregate of 743,288 shares of common stock at a price of $1.68 per share (the "March 2008 Warrants"). As of December 31, 2005 all of these warrants have been exercised.

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

The March 2003 Debentures, were recorded at a discount on issuance and with an original issue discount of approximately $2,098,000 and $776,000, respectively, due to ascribing value to the beneficial conversion feature and fair value of warrants based on the relative fair value of the proceeds.

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

On June 25, 2003, the Company issued to each of the March 2003 Debenture holders warrants to acquire at any time through June 25, 2008 an aggregate of 1,000,000 shares of common stock at a price of $2.40 per share (the "June 2008 Warrants"). These warrants were issued as incentive for the Debenture holders to exercise prior warrant issuances and were fair valued utilizing the Black-Scholes Method at $1,320,000. This issuance, as restated (See Note 2), was reflected as a deemed dividend and a related increase to additional paid in capital.

The investors exercised all 743,288 of the March 2008 Warrants in July 2003 which produced gross proceeds in the amount of approximately $1,249,000. Pursuant to the Company's agreement with the Debenture holders, as discussed below in "Registration Rights Agreements"), the Company registered the shares issuable upon exercise of these June 2008 Warrants for public sale.

On May 14, 2004, in consideration for the March 2003 Debenture holders' exercise of all of the June 2008 Warrants, the Company issued to the holders warrants (the "May 2009 Warrants") to purchase an aggregate of 1,300,000 shares of the Company's common stock. The Company issued 1,000,000 shares of common stock and received gross proceeds of $2,400,000 from the exercise of the June 2008 Warrants.

Pursuant to the Company's agreement with the holders, as discussed below

in "Registration Rights Agreements", the Company registered the shares issuable upon exercise of the May 2009 Warrants for public sale.

The May 2009 Warrants are to acquire at any time commencing on November 14, 2004 through April 30, 2009 an aggregate of 1,300,000 shares of common stock at a price of $4.50 per share. This warrant issuance, as restated, was fair valued using the Black-Scholes Method, and was reflected as a deemed dividend of approximately $2,355,000 during the second quarter of 2004. The exercise price (and the reset price) under the May 2009 Warrants also is subject to adjustments for anti-dilution protection similar to those in the other Warrants. Notwithstanding the foregoing, the exercise price as reset or adjusted for anti-dilution, will in no event be less than $4.008 per share. Upon completion of the August 2004 Private Placement (see Note 9), the exercise price was lowered to $4.008 per share. On May 14, 2005, the exercise price of these May 2009 Warrants was set to reset to the lesser of the exercise price then in effect or a price equal to the average of the daily price of the common stock between May 15, 2004 and May 13, 2005; however, since the exercise price was previously set to the floor price of $4.008 per share this provision did not impact these warrants.

As of December 31, 2003, the investors had converted the total $5,426,000 principal of the March 2003 Debentures into 3,716,438 shares of the Company's common stock. Financing costs and interest expense incurred for the year ended December 31, 2003, on the March 2003 Debenture amounted to $2,874,000 and $111,000, respectively. The interest due on this debenture was paid in cash of $17,000 with $94,000 being paid by the issuance of shares of the Company's common stock.

July 2003 Debentures

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

The July 2003 Debentures were convertible at the option of the investors at any time through July 31, 2005 into shares of the Company's common stock. The

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

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

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

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

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

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

During 2004, the investors had converted $4,257,071 principal of the July

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

The Company recorded financing costs for the years ended December 31, 2004 and 2003, with regard to the July 2003 Debentures of $2,301,000 and $1,496,000, respectively. Interest incurred for the years ended December 31, 2003 and 2004 was $117,000 and $3,000, respectively.

October 2003 Debentures

On October 29, 2003, the Company issued an aggregate of $4,142,357 in principal amount of 6% Senior Convertible Debentures due October 31, 2005 (the "October 2003 Debentures") and an aggregate of 410,134 Warrants (the "October 2008 Warrants") in a private placement for aggregate gross proceeds of $3,550,000. Pursuant to the terms of the October 2003 Debentures, $1,550,000 of the proceeds from the sale of the October 2003 Debentures were held back and were to be released to the Company if, and only if, the Company acquired ISI's facility within 90 days of January 26, 2004 and provided a mortgage on the facility as further security for the October 2003 Debentures (see Note 5 above). In April 2004, the Company acquired the facility and the Company subsequently provided the mortgage of the facility to the Debenture holders and the above funds were released. The Company recorded an additional debt discount of $259,000 upon receiving these held back proceeds. The October 2003 Debentures were to mature on October 31, 2005 and bore interest at 6% per annum, payable quarterly in cash or, subject to satisfaction of certain conditions, common stock. Any shares of common stock issued to the investors as payment of interest are to be valued at 95% of the average closing price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms and conditions of the October 2003 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

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

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

Pursuant to the Company's agreement with the holders, as discussed below in "Registration Rights Agreements", the Company registered the shares issuable upon conversion of the October 2003 Debentures and upon exercise of the October

2008 Warrants for public sale.

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

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

In October 2005, the Company entered into an amendment agreement with the October 2003 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7% (see "Debenture Agreement Amendment" below for more details).

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

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

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

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

As of December 31, 2005, the investors had converted $2,071,178 principal amount of the October 2003 Debenture into 1,025,336 shares of Common Stock. The remaining balance of $2,071,178 is convertible into 1,025,336 shares of common stock.

The Company recorded financing costs for the years ended December 31, 2003, 2004 and 2005, with regard to the October 2003 Debentures of $361,000, $1,366,000 and $865,000, respectively. Interest expense for the years ended December 31, 2005, 2004 and 2003, with regard to the October 2003 Debentures was $129,000, $118,000 and $24,000, respectively.

January 2004 Debentures

On January 26, 2004, the Company issued an aggregate of $4,000,000 in principal amount of 6% Senior Convertible Debentures due January 31, 2006 (the "January 2004 Debentures"), an aggregate of 790,514 warrants (the "July 2009 Warrants") and 158,104 shares of common stock, and Additional Investment Rights (to purchase up to an additional $2,000,000 principal amount of January 2004 Debentures commencing in six months) in a private placement for aggregate net proceeds of $3,695,000. The January 2004 Debentures were to mature on January 31, 2006 and bear interest at 6% per annum, payable quarterly in cash or, subject to satisfaction of certain conditions, common stock. As discussed below, the maturity date and interest rate were amended. Any shares of common stock issued to the investors as payment of interest shall be valued at 95% of the average closing price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms of the January 2004 Debentures, commencing July 26, 2004, the Company began to repay the then outstanding principal amount under the Debentures in monthly installments amortized over 18 months in cash or, at the Company's option, in shares of common stock. Any shares of common stock issued to the investors as installment payments shall be valued at 95% of the average closing price of the common stock during the 10-day trading period commencing on and including the eleventh trading day immediately preceding the date that the installment is due. Pursuant to the terms and conditions of the January 2004 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

The January 2004 Debentures are convertible at the option of the investors at any time through January 31, 2006 into shares of the Company's common stock. The conversion price under the January 2004 Debentures was fixed at $2.53 per share, subject to adjustment for anti-dilution protection for issuance of common

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

In October 2005, the Company entered into an amendment agreement with the January 2004 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7% (see "Debenture Agreement Amendment" below for more details).

There are two classes of July 2009 Warrants received by the Investors: Class A and Class B. The Class A warrants are to acquire any time from July 26, 2004 through July 26, 2009 an aggregate of up to 395,257 shares of common stock at a price of $3.29 per share. The Class B warrants are to acquire any time from July 26, 2004 through July 26, 2009 an aggregate of up to 395,257 shares of common stock at a price of $5.06 per share. On January 27, 2005, the exercise price of these July 2009 Class A and Class B Warrants were reset to the lesser of their respective exercise price then in effect or a price equal to the average of the daily price of the common stock between January 27, 2004 and January 26, 2005. The exercise price (and the reset price) under the July 2009 Warrants also is subject to similar adjustments for anti-dilution protection. Notwithstanding the foregoing, the exercise prices as reset or adjusted for anti-dilution, will in no event be less than $2.58 per share. Upon completion of the August 2004 Private Placement (see Note 9), the exercise price was lowered to $2.58 per share.

Pursuant to the Company's agreement with these investors, as discussed below in "Registration Rights Agreements"), the Company registered the shares issuable upon conversion of the January 2004 Debentures and upon exercise of the July 2009 Warrants for public sale.

The January 2004 Debentures were recorded at a discount on issuance and with an original issue discount of $366,000 and $465,000, respectively, due to ascribing value to the beneficial conversion feature and fair value of warrants based on the relative fair value of the proceeds.

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

Section 713 of the American Stock Exchange Company Guide

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

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

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

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

During 2004, the investors made installment payments of $777,000 and converted $139,150 of principal amount of the January 2004 Debenture into 358,932 and 55,000 shares of common stock respectively. During 2005, the

investors had made installment payments of $1,111,111 and converted approximately $74,608,000 principal amount of the January 2004 Debentures into 735,217 and 292,000 shares of common stock, respectively. The remaining principal on these Debentures was $1,364,602 as of December 31, 2005.

The Company recorded financing costs for the years ended December 31, 2004 and 2005 with regard to the January 2004 Debentures of $720,000 and $917,000, respectively. Interest expense for the years ended December 31, 2005 and 2004, with regard to the January 2004 Debentures was $145,000 and $207,000, respectively.

July 2004 Debentures

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

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

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

In October 2005, the Company entered into an amendment agreement with the July 2004 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7% (see "Debenture Agreement Amendment" below for more details).

As of December 31, 2005, the Company made installment payments of $500,000 resulting in the issuance of 331,669 shares of the Company's common stock. The

Debenture holders had not converted any portion of this debenture as of December 31, 2005.

The Company recorded financing costs for the years ended December 31, 2005 and 2004 with regard to the July 2004 Debentures of $481,000 and $248,000, respectively. Interest expense for the years ended December 31, 2005 and 2004, with regard to the January 2004 Debentures was $113,000 and $61,000, respectively.

Debenture Agreement Amendment

On October 6, 2005, the Company entered into a material definitive agreement with the October 2003, January 2004 and July 2004 debenture holders to 1) amend the remaining outstanding Debentures that were to mature on October 31, 2005 (as amended, the "October 2003 Debenture") and the two traunches of outstanding debentures due to mature on January 31, 2006 (as amended, respectively, the "January 2004 and July 2004 Debentures"), to a maturity date of June 30, 2007, 2) to increase the interest rate from 6% per annum to 7% per annum. In consideration for extending the maturity date of the outstanding debentures, the Company issued an aggregate of 225,000 Warrants (the "October 2009 Warrants") to the debenture holders to acquire common stock at a price of $2.50 per share at any time from October 31, 2005 through October 31, 2009. The October 2009 Warrants contain provisions for adjustment of the exercised price in the event of certain anti-dilution events. The Company agreed to register 135% of the shares issuable as interest shares that might result due to the amendments to the Debentures and issuable upon exercise of the October 2009 Warrants.

In accordance with EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments", the Company has treated the change in terms to the original debentures as non-substantial in nature and have not accounted for such modification as an extinguishment of debt, but rather a debt modification. In addition, the 225,000 warrants issued to the debenture holders as consideration for extending the maturity date were valued using the Black-Scholes method and $189,000 of additional debt discount on the July 2004 Debenture was recorded. The discount will be amortized as interest expense over the new term of the debt instrument in accordance with the effective interest of accounting. Any costs incurred by third parties were expensed as incurred.

Registration Rights Agreements

The Company entered into Registration Rights Agreements with the investors in connection with the issuance of (i) the above Debentures; (ii) the June 2008, July 2008, October 2008, July 2009, and May 2009 Warrants (collectively, the "Warrants"); and (iii) the shares issued in January 2004. Pursuant to the Registration Rights Agreements the Company has registered on behalf of the investors the shares issued to them in January 2004 and 135% of the shares issuable upon conversion of the Debentures and upon exercise of all of the Warrants. If, subject to certain exceptions, sales of all shares so registered cannot be made pursuant to the registration statements, then the Company will be required to pay to the investors their pro rata share of $.00067 times the outstanding principal amount of the relevant Debentures for each day the above condition exists as liquidated damages. As a result of the Company's inability to timely file its annual report on Form 10-K for the year ended December 31, 2005, the Company currently is subject to liquidated damages until such time as the Shares are again registered for public resale or eligible for resale pursuant to Rule 144(k) under the Securities Act. (See Note 20- subsequent events for more information on liquidated damages).

Investment Banking Fees

By agreement with Cardinal Securities, LLC, for general financial advisory services and in conjunction with the private debenture placements in July and October 2003 and in January and July 2004, the Company paid Cardinal Securities, LLC an investment banking fee equal to 7% of the investments made by the Debenture holders and issued to Cardinal the following warrants to purchase common stock: (i) 112,500 exercisable at $2.57 per share; (ii) 87,500 exercisable at $2.42 per share; and (iii) 100,000 exercisable at $3.04 per share. The $2.57 warrants expire on July 10, 2008, the $2.42 warrants expire on October 29, 2008 and the $3.04 warrants expire on January 5, 2009. With regard to the exercise of the June 2008 Warrants and issuance of the May 2009 Warrants, Cardinal received an investment banking fee of 7%, half in cash and half in shares. With regard to the exercise of the Additional Investment Rights, the July 2008 and October 2008 Warrants and issuance of the July 2009 Warrants, Cardinal received an investment banking fee of 7%, $146,980 in cash and 22,703 in shares as well as 50,000 warrants exercisable at $4.07 expiring on July 12, 2009. By agreement with Cardinal, the Company has registered all of the foregoing shares and shares issuable upon exercise of the above mentioned warrants for public resale. As a result of the transactions discussed above, the Company recorded $538,000 and $149,000, as restated, as deferred financing costs on the balance sheet as of December 31, 2003 and 2004, respectively, with a related increase to additional paid in capital. These costs are amortized over the life of the debenture. Amortization expense was $360,000, $263,000 and $161,000 as of December 31, 2003, 2004 and 2005.

Conversion of Convertible Debt

The maximum number of shares issuable upon debt conversion, including interest as well as 135% of the shares issuable upon conversion and interest payments were 5,011,525 and 3,667,662 shares at December 31, 2004 and 2005, respectively.

Collateral and Financial Covenants

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

Pursuant to the terms and conditions of all of the outstanding Debentures, the Company has pledged all of the Company's assets, other than the Company's intellectual property, as collateral, and the Company is subject to comply with certain financial covenants. The Company failed to timely file its Annual Report on Form 10-K with the Securities and Exchange Commission pursuant to the 1934 Act, and therefore, was in violation of its covenant to timely file. See Note 20 - Subsequent Events for more details on this and the Company's receipt of a waiver of this covenant.

Debenture Acceleration Provisions

Upon an Event of Default as described in the Debentures, and for so long as such Event of Default shall be continuing, unless waived by a Debenture

holder, a Debenture holder, on written notice to the Company may consider the Debenture immediately due and payable. Events of Default include: (a) any Event of Default under any other Debenture; (b) suspension from trading or failure of the Common Stock to be listed on the AMEX for more than an aggregate of ten trading days in any 365-day period; (c) Any money judgment, writ or warrant of attachment, or similar process in excess of $250,000 in the aggregate is entered or filed against the Company, its Subsidiaries or any of their properties or other assets and which remains unpaid, unvacated, unbonded and unstayed for a period of 75 days; (d) the Company defaults in the payment when due of (i) interest on the Debenture, and such default continues for 30 days, or (ii) the outstanding principal amount of the Debenture; (e) any Company representations or warranties in the Debentures and the related documents (the "Transaction Documents") or any mortgage are untrue in any material respect when made and are not cured, provided they are curable, within a specified period and such breach of representations and warranties would have a material adverse effect on the Company or materially impair the ability of the Company to satisfy its obligations to the Holders; (f) the Company fails to perform or observe in any material respect any material covenant in the Debenture or any relevant Transaction Document (such as the failure to honor any conversion notice); (g) the Company becomes insolvent or certain other events that trigger creditors' rights, bankruptcy, liquidation or similar proceedings occur; (h) the Company fails to pay any indebtedness (other than the Debentures), or any interest or premium thereon, when due in an outstanding principal amount equal to or greater than $1,000,000 and such failure continues after the applicable grace period, if any, or such indebtedness is declared be due and payable prior to the stated maturity thereof; (i) unless the Company has made cash collateral payments in an amount equal to the entire outstanding principal amount of all Debentures, together with accrued and unpaid interest thereon, the Registration Statement required to register the shares issuable upon conversion of the Debentures and exercise of the related warrants is not declared effective by the SEC and available for the sale on or before certain specified dates; (j) the Security Agreement, any Mortgage or any other security document, after delivery thereof pursuant to the relevant securities purchase agreement, fails or ceases to create a valid and perfected and, except to the extent permitted by the relevant Transaction Documents, first priority lien in favor of the agent for the benefit of the holders of Debentures on any collateral covered thereby; (k) the Cash Collateral Account Bank shall fail to comply with any of the terms of the Account Control Agreement; (l) at any time required to be in full force and effect, the Letters of Credit ceases to be in full force and effect and such breach is not cured within a specified time; (m) the report of the Company's auditors on the Company's consolidated audited financial statements for the year ended prior to the issuance of the relevant Debenture contained any going concern qualification; or (n) any material damage to, or loss, theft or destruction of, any Collateral, or any adverse event such as a labor dispute or act of God, which causes, for more than 15 consecutive days, the cessation or substantial curtailment of revenue producing activities at any material facility of the Company or any of its Subsidiaries. Upon the occurrence of an Event of Default described in subsection (g) above, the Debentures become automatically due and payable. In such event the Debentures are to be redeemed at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest thereon. In addition, upon an Event of Default, the interest rate on the Debentures permanently increases by two percent and, solely in the case of an Event of Default triggered by a conversion failure ((f) above), higher, but in no event can the interest rate increase above the lower of 20% or the highest rate permitted by applicable law (See Note 20).

In connection with the Debenture agreements, the Company has outstanding

letters of credit of $1 million as additional collateral.

(9) Stockholders' Equity

(a) Preferred Stock

The Company is authorized to issue 5,000,000 shares of $.01 par value preferred stock with such designations, rights and preferences as may be determined by the board of directors. There were no preferred shares issued and outstanding at December 31, 2004 and 2005.

(b) Common Stock

On July 31, 2003, we had approximately 104,000 shares of the Company's $.001 authorized shares of $.001 par value Common Stock that were not issued or reserved for issuance. In order to accommodate the shares needed for the July 2003 Debenture, Dr. Carter, the Company's Chief Executive Officer and Cardinal Capital, LLC, the placement agent, agreed that they would not exercise their warrants or options unless and until the Company's stockholders approved an increase in the Company's authorized shares of common stock. This action freed up 3,206,650 shares. For Dr. Carter's waiver of his right to exercise certain options and warrants prior to approval of the increase in the Company's authorized shares, the Company agreed to compensate Dr. Carter and issued Dr. Carter 1,450,000 warrants to purchase common stock at $2.20 per share in 2003 that vested in the first quarter 2004 upon the second ISI asset closing. The Company recorded a charge to stock compensation expense during the first quarter of 2004 of $1,769,000 upon the full vesting of these warrants at their intrinsic value.

The Company's stockholders approved an amendment to the Company's corporate charter at the Annual Shareholder meeting held in Philadelphia, PA on September 10, 2003. This amendment increased the Company's authorized shares from 50,000,000 to 100,000,000.

As of December 31, 2004 and 2005, 49,631,766 and 56,264,155 shares, net of shares held in the treasury, were outstanding, respectively.

(c) Minority Shareholder Interest

On March 20, 2002 the Company's European Subsidiary Hemispherx Biopharma Europe, S.A. ("Hemispherx, S.A.") entered into a Sales and Distribution agreement with Laboratorios del Dr. Esteve S.A. ("Esteve")(Note 17). Pursuant to the terms of the Agreement, Esteve was granted the exclusive right to market Ampligen(R) in Spain, Portugal and Andorra for the treatment of Myalgic Encephalitis/Chronic Fatigue Syndrome ("ME/CFS"). In addition to other terms and other projected payments, Esteve paid an initial and non refundable fee of 625,000 Euros (approximately $563,000) to Hemispherx S.A. on April 24, 2002 as the first part of a series of milestone based payments.

During March 2002, Hemispherx, S.A. was authorized to issue up to 22,000,000 Euros of seven percent (7%) convertible preferred securities. Such securities are guaranteed by the parent company and are convertible into a specified number of shares of Hemispherx S.A. pursuant to the securities agreement. Conversion is to occur on the earlier of an initial public offering of Hemispherx S.A. on a European stock exchange or September 30, 2003.

Esteve purchased 1,000,000 Euros of Hemispherx Biopharma Europe S.A.'s

convertible preferred equity certificates on May 23, 2002. During 2002, the terms and conditions of these securities were changed so that these preferred equity certificates could be converted into the common stock of Hemispherx Biopharma, Inc. in the event that a European IPO was not completed by September 30, 2003. The conversion rate was 300 shares of Hemispherx Biopharma, Inc.'s common shares for each 1,000 Euro convertible preferred certificate. As a result the Company recorded approximately $946,000 as minority interest in subsidiary on its balance sheet at December 31, 2002.

On December 18, 2002, we proposed that Esteve convert their convertible preferred equity certificates into Hemispherx common stock pursuant to the terms of the agreement and all unpaid dividends at the market price on that conversion date. On January 9, 2003, Esteve accepted the Company's proposal and we registered these shares for public sale.

On March 13, 2003, we issued 347,445 shares of the Company's common stock to Provesan S.A., an affiliate of Esteve S.A., in exchange for 1,000,000 Euros of convertible preferred equity certificates and any unpaid dividends. As a result of the exchange, the minority interest in subsidiary was transferred to stockholders' equity on such date.

(d) Equity Financings

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

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

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

On July 8, 2005, the Company entered into a common stock purchase agreement with Fusion Capital Fund II, LLC ("Fusion Capital"), pursuant to which Fusion Capital has agreed, under certain conditions, to purchase on each trading day $40,000 of the Company's common stock up to an aggregate of $20.0 million over approximately a 25 month period, subject to earlier termination at the Company's discretion. In the Company's discretion, it may elect to sell less common stock to Fusion Capital than the daily amount and we may increase the

daily amount as the market price of the Company's stock increases. The purchase price of the shares of common stock will be equal to a price based upon the future market price of the common stock without any fixed discount to the market price. Fusion Capital does not have the right or the obligation to purchase shares of the Company's common stock in the event that the price of the common stock is less than $1.00.

Pursuant to the Company's agreement with Fusion Capital, the Company has registered for public sale by Fusion Capital up to 10,795,597 shares of our common stock. However, in the event that the Company decides to issue more than 10,113,278, i.e. greater than 19.99% of the outstanding shares of common stock as of the date of the agreement, the Company would first seek stockholder approval in order to be in compliance with American Stock Exchange rules. As of December 31, 2005, Fusion Capital has purchased 4,007,255 shares amounting to approximately $8,020,000 in gross proceeds to the Company.

In connection with entering into the above agreement with Fusion Capital, the Company, in July 2005, issued to Fusion Capital 402,798 shares of its common stock. 392,798 of these shares represented 50% of the commitment fee due Fusion Capital with the remaining 10,000 shares issued as reimbursement for expenses. An additional 392,799 shares, representing the remaining balance of the commitment, are issuable in conjunction with daily purchases of common stock by Fusion Capital. These additional commitment shares will be issued in an amount equal to the product of (x) 392,799 and (y) the Purchase Amount Fraction. The "Purchase Amount Fraction" means a fraction, the numerator of which is the purchase price at which the shares are being purchased by Fusion Capital and the denominator of which is $20,000,000. As of December 31, 2005, Fusion Capital was issued 263,713 shares towards this commitment fee. In total, Fusion Capital has purchased 4,673,766 shares in connection with this private placement as of December 31, 2005 (See Note 20).

(e) Common Stock Options and Warrants

(i) Stock Options

The 1990 Stock Option Plan provides for the grant of options to purchase up to 460,798 shares of the Company's Common Stock to employees, directors, and officers of the Company and to consultants, advisors, and other persons whose contributions are important to the success of the Company. The recipients of options granted under the 1990 Stock Option Plan, the number of shares to be converted by each option, and the exercise price, vesting terms, if any, duration and other terms of each option shall be determined by the Company's board of directors or, if delegated by the board, its Compensation Committee. No option is exercisable more than 10 years and one month from the date as of which an option agreement is executed. These shares become vested through various periods not to exceed four years from the date of grant. The option price represents the fair market value of each underlying share of Common Stock at the date of grant, based upon the public trading price.

Information regarding the options approved by the Board of Directors under the 1990 Stock Option Plan is summarized below:

	2003		2004		
		Weighted		Weighted	

	Shares	Option Price	Average Exercise Price	Shares	Average Exercise Price	Option Price	Shares	
Outstanding, beginning of year	294,665	$1.06-4.34	$3.50	433,134	$1.06-4.34	$3.10	414,702	$2
Granted	200,000	$ 2.75	$2.75	--	--	--	--	
Canceled	(61,531)	$3.80-4.03	$3.97	(18,432)	$ 4.34	$4.34	--	
Exercised	--	--	--	--	--	--	--	
Outstanding, end of year	433,134	$1.06-4.34	$3.10	414,702	$2.71-4.03	$3.11	414,702	$2
Exercisable	433,134	$1.06-4.34	$3.10	414,702	$2.71-4.03	$3.11	414,702	$2
Weighted average remaining contractual life (years)	3.37 years	--	--	8.24 years	--	--	5.10 years	
Exercised in current and prior years	(27,215)	--	--	(27,215)	--	--	(27,215)	
Available for future grants	27,664	--	--	46,096	--	--	46,096	

The following table summarizes information about these options outstanding at December 31, 2005:

	Exercise Price Range			
	$2.71 - $2.75	$3.50	$4.03	Total
Outstanding Options:				
Number Outstanding	273,728	54,974	86,000	414,702
Remaining contracted life years	8.0	2.0	5.1	5.1
Weighted average exercise price	$2.68	$3.21	$4.03	$3.11
Exercisable Options:				
Number outstanding	273,728	54,974	86,000	414,702
Weighted average exercise price	$2.68	$3.21	$4.03	$3.11

In December 1992, the Board of Directors approved the 1992 Stock Option Plan (the 1992 Stock Option Plan) which provides for the grant of options to purchase up to 92,160 shares of the Company's Common Stock to employees, directors, and officers of the Company and to consultants, advisors, and other persons whose contributions are important to the success of the Company. The recipients of the options granted under the 1992 Stock Option Plan, the number of shares to be covered by each option, and the exercise price, vesting terms, if any, duration and other terms of each option shall be determined by the Company's board of directors. No option is exercisable more than 10 years and one month from the date as of which an option agreement is executed. To date, no options have been granted under the 1992 Stock Option Plan.

The Company's 1993 Employee Stock Purchase Plan (the 1993 Purchase Plan) was approved by the board of directors in July 1993. The outline of the 1993 Purchase Plan provides for the issuance, subject to adjustment for capital changes, of an aggregate of 138,240 shares of Common Stock to employees.

The 1993 Purchase Plan is administered by the Compensation Committee of the board of directors. Under the 1993 Purchase Plan, Company employees are eligible to participate in semi-annual plan offerings in which payroll deductions may be used to purchase shares of Common Stock. The purchase price for such shares is equal to the lower of 85% of the fair market value of such shares on the date of grant or 85% of its fair market value of such shares on the date such right is exercised. There have been no offerings under the 1993 Purchase Plan to date and no shares of Common Stock have been issued thereunder.

During 2003, the Company issued options to acquire 200,000 shares to its general counsel under the 1990 plan for services rendered. As a result, the Company charged operating expenses in the amount of $237,000. There was no stock compensation expense in 2004 and 2005 recorded as there were no options granted under this plan.

The Equity Incentive Plan effective May 1, 2004, authorizes the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and other stock awards. A maximum of 8,000,000 shares of common stock is reserved for potential issuance pursuant to awards under the Equity Incentive Plan. Unless sooner terminated, the Equity Incentive Plan will continue in effect for a period of 10 years from its effective date.

The Equity Incentive Plan is administered by the Board of Directors. The Equity Incentive Plan provides for awards to be made to such officers, other key employees, non-employee directors, consultants and advisors of the Company and its subsidiaries as the Board may select.

Stock options awarded under the Equity Incentive Plan may be exercisable at such times (not later than 10 years after the date of grant) and at such exercise prices (not less than fair market value at the date of grant) as the Board may determine. The Board may provide for options to become immediately exercisable upon a "change in control," which is defined in the Equity Incentive Plan to occur upon any of the following events: (a) the acquisition by any person or group, as beneficial owner, of 20% or more of the outstanding shares or the voting power of the outstanding securities of the Company; (b) either a majority of the directors of the Company at the annual stockholders meeting has been nominated other than by or at the direction of the incumbent directors of the Board, or the incumbent directors cease to constitute a majority of the Company's Board; (c) the Company's stockholders approve a merger or other business combination pursuant to which the outstanding common stock of the Company no longer represents more than 50% of the combined entity after the transaction; (d) the Company's shareholders approve a plan of complete liquidation or an agreement for the sale or disposition of all or substantially all of the Company's assets; or (e) any other event or circumstance determined by the Company's Board to affect control of the Company and designated by resolution of the Board as a change of control.

Information regarding the options approved by the Board of Directors under the Equity Incentive Plan is summarized below:

	2004			2005		
	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Wei Av Exe P
Outstanding beginning at year	--	--	--	633,080	$1.90-3.44	$2
Granted	633,080	$1.90-3.44	$2.56	1,352,600	$1.63-2.87	$1
Canceled	--	--	--	--	--	
Exercised	--	--	--	--	--	
Outstanding end of year	633,080	$1.90-3.44	$2.56	1,985,680	$1.63-2.87	$2
Exercisable	538,432	$2.60-3.44	$2.68	1,373,250	$1.63-2.87	$2
Weighted average remaining contractual life (years)	10 years			8-9 years		
Available for future grants	7,366,920			6,014,320		

The following table summarizes information about these options outstanding at December 31, 2005:

	Exercise Price Range			
	$1.63-$1.90	$2.00-2.87	$3.44	Total
Outstanding options:				
Number outstanding	1,101,648	834,032	50,000	1,985,680
Remaining contracted life years	3.0	8.7	8.5	8.5
Weighted average exercise price	$ 1.81	$ 2.51	$ 3.44	$ 2.15
Exercisable options:				
Number outstanding	575,918	747,332	50,000	1,373,250
Weighted average exercise price	$ 1.76	$ 2.52	$ 3.44	$ 2.17

(ii) Stock warrants

Number of warrants exercisable into shares of common stock

	2003	2004	

	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price	
Outstanding beginning of year	7,967,810	$1.75-16.00	$3.18	11,502,796	$1.74-16.00	$3.57	1
Granted	4,623,024	$1.68-2.57	$2.32	4,791,187	$2.58-4.20	$3.25	
Canceled	(276,000)	$4.00-10.00	$6.54	(858,360)	$4.00-8.00	$5.34	(
Exercised	(812,038)	$1.68-1.75	$1.69	(2,268,586)	$1.74-3.50	$2.32	
Outstanding end of year	11,502,796	$1.74-16.00	$3.57	13,167,037	$1.75-16.00	$3.46	1
Exercisable	8,635,560	$1.74-16.00	$4.11	12,667,037	$1.75-16.00	$3.46	1
Weighted average remaining contractual life (years)	4.04 years			4.3 years			4
Years exercisable	2004-2008			2005-2009			

The following table summarizes information about stock warrants outstanding at December 31, 2005:

	Exercise price range			Total
	$1.75-$5.00	$6.00-$9.00	$10.00-$16.00	$1.75-$16.00
Outstanding warrants				
Number outstanding	10,416,187	713,650	400,000	11,529,837
Weighted average remaining contractual life(years)	4.2	2.2	1.46	4.43
Weighted average exercise price	$ 2.89	$ 6.80	$ 13.00	$ 3.32
Exercisable warrants				
Number outstanding	10,416,187	713,650	400,000	11,529,837
Weighted average exercise price	$ 2.89	$ 6.80	$ 13.00	$ 3.32

Certain of the stock warrants outstanding are subject to adjustments for stock splits and dividends.

Warrants issued to stockholders

At December 31, 2001 there were 232,160 warrants issued to stockholders remaining. In 2002, 10,000 were converted to common stock. At December 31, 2002 and 2003 there were 222,160 warrants remaining. These warrants had an exercise price of $3.50 per share.

Other stock warrants

The Company has issued other stock warrants outstanding - totaling

11,529,837, which consists of the following:

In November 1994, the Company granted Rule 701 Warrants to purchase an aggregate of 2,080,000 shares of Common Stock to certain officers and directors. These Warrants are exercisable at $3.50 per share and, if not exercised, were to expire in September, 1999. On February 19, 1999 the Board of Directors extended the expiration date for three more years. In 1999 235,000 warrants were exercised and 5,000 warrants were exercised in 2000. At December 31, 2000, there were 1,840,000 Rule 701 warrants remaining. In 2001 20,000 of these warrants expired, leaving a balance of 1,820,000 in warrants outstanding at December 31, 2001. During 2002, 420,000 warrants expired and the Company extended the expiration date of the remaining balance of 1,400,000 for a period of five years to now expire on September 30, 2007. These stock warrants have an exercise price of $3.50. In accordance with FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, no compensation expense was recognized as the exercise price at the extension date exceeded the fair value of the underlying common stock.

In May 1995, the Company and certain officers, directors and shareholders entered into a standby finance agreement pursuant to which the parties agreed to provide an aggregate of $5,500,000 in financing to the Company during 1995 in the event that existing and additional financing was insufficient to cover the cash needs of the Company through December 31, 1996. In exchange, the Company issued warrants to purchase an aggregate of 2,750,000 shares of Common Stock at $1.75 per share to the parties. In 1996, 597,000, in 1999, 290,000, in 2000, 216,500, in 2001, 200,000, in 2002, 1,300, in 2003, 35,000 and in 2004, 205,000 of these warrants were exercised leaving a balance of these warrants of 1,802,200. 5,000 of these remaining warrants were exercised in 2005 and the remaining expired on June 30, 2005.

In the years 2001, 2002 and 2003, the Company issued 450,000, 25,000 and no warrants, respectively, exclusive of warrants issued in connection with the Company's 2003 Debenture issuances (see Note 8), to investment banking firms for services performed on behalf of the Company. Accordingly, the Company recorded stock compensation of $637,000, $133,000 and none for the years 2001, 2002 and 2003, respectively. These warrants have various vesting dates and exercisable prices ranging from $4.00 to $16.00 per share. In total, 1,193,800 warrants were outstanding at December 31, 2002. In 2003, 225,000 of these warrants expired leaving a balance of 968,800 warrants at December 31, 2003. In 2004, 193,800 of these warrants expired leaving a balance of 775,000 warrants at December 31, 2004. In 2005, 350,000 of these warrants expired leaving a balance of 425,000. These warrants are exercisable in five years from the date of issuance.

In 2003, 2004 and 2005 the Company had warrants outstanding, issued to employees, directors and consultants, of 5,100,650, 4,645,650 and 4,268,650 respectively. These warrants were not issued pursuant to an equity plan and are exercisable at rates of $1.55 to $10.00 per share of common stock. The exercise price was equal to the fair market value of the stock on the date of grant. At December 31, 2002, 3,701,650 of the non-public warrants were outstanding. During 2003 the Company granted 1,450,000 warrants to employees with an exercise price of $2.20 for services performed and 51,000 warrants expired. At December 31, 2003, 5,100,650 warrants were outstanding. During 2004, 15,000 warrants were issued to consultants and 470,000 expired leaving a balance of 4,645,650 at December 31, 2004. During 2005, 265,000 warrants were issued to consultants and 642,000 expired leaving a balance of 4,268,650 at December 31, 2005. These stock warrants have exercise prices ranging from $3.50 to $4.00.

In 2003 the company issued warrants to acquire 3,173,024 shares in connection with the financing of the purchase of the assets of Interferon Sciences, Inc. During 2003, 777,038 of these warrants were exercised leaving a balance of 2,395,986 at December 31, 2003. During 2004, 4,776,187 warrants were issued related to debt financing and 2,035,986 warrants were exercised leaving a balance of 5,136,189 warrants at December 31, 2004. During 2005, 300,000 warrants were issued leaving a balance of 5,436,189 at December 31, 2005.

(f) Stock Repurchase

The Company's repurchases of shares of common stock are recorded as "Treasury Stock" and result in a reduction of "Stockholders' equity." When treasury shares are reissued, the Company uses a first-in, first-out method and the excess of repurchase cost over reissuance price is treated as a reduction of "Additional paid-in capital." At December 31, 2003 there were 443 shares in the treasury. During 2003 most of the then existing treasury shares were either re-issued or retired. There was no Treasury Stock repurchased, re-issued and the balance of 443 shares were sold in 2004.

(g) Rights offering

On November 19, 2002, the Board of Directors of Hemispherx Biopharma, Inc. (the "Company") declared a dividend distribution of one Right for each outstanding share of Common Stock to stockholders of record at the close of business on November 29, 2002 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of Series A Junior Participating Preferred Stock, par value $.01 per share (the "Series A Preferred Stock") at a Purchase Price of $30.00 per Unit, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") between the Company and Continental Stock Transfer & Trust Company, as Rights Agent.

Initially, the Rights are attached to all Common Stock certificates representing shares then outstanding, and no separate Rights Certificates will be distributed. Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the Common Stock and a Distribution Date will occur upon the earlier of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of 15% or more (or 20% or more for William A. Carter, M.D.) of the outstanding shares of Common Stock (the "Stock Acquisition Date"), other than as a result of repurchases of stock by the Company or certain inadvertent actions by institutional or certain other stockholders or (ii) 10 business days (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person. Until the Distribution Date, (i) the Rights will be evidenced by the Common Stock certificates and will be transferred with and only with such Common Stock certificates, (ii) new Common Stock certificates issued after the Record Date will contain a notation incorporating the Rights Agreement by reference and (iii) the surrender for transfer of any certificates for Common Stock outstanding will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate. Pursuant to the Rights Agreement, the Company reserves the right to require prior to the occurrence of a Triggering Event (as defined below) that, upon any exercise of Rights, a number of Rights be exercised so that only whole shares of Preferred Stock will be issued.

(10) Segment and Related Information

The Company operates in one segment, which performs research and development activities related to Ampligen(R) and other drugs under development, and sales and marketing of Alferon(R).

The following table presents revenues by country based on the location of the use of the product services.

	(in thousands)		
	2003	2004	2005
United States	$655	$1,225	$1,083
Belgium	2	4	--
Other	--	--	--
	--	--	--
	$657	$1,229	$1,083

The Company employs an insignificant amount of net property and equipment in its foreign operations.

(11) Research, Consulting and Supply Agreements

In 1994, the Company entered into a licensing agreement with Bioclones (Proprietary) limited ("Bioclones") for manufacturing and international market development in Africa, Australia, New Zealand, Tasmania, the United Kingdom, Ireland and certain countries in South Africa, of Ampligen(R) and Oragen(TM). On December 27, 2004 the Company initiated a lawsuit in Federal Court identifying a conspiratorial group seeking to illegally manipulate the Company's stock for purposes of bringing about a hostile takeover of Hemispherx. This conspiratorial group includes Bioclones.

In 1998, the Company entered into a strategic alliance with Accredo to develop certain marketing and distribution capacities for Ampligen(R) in the United States. Accredo is one of the nation's largest home health care companies with over 400 offices and sixty thousand caregivers nationwide. Pursuant to the agreement, Accredo assumed certain responsibilities for distribution of Ampligen(R) for which they received a fee. Through this arrangement, the Company may mitigate the necessity of incurring certain up-front costs. Accredo has also worked with the Company in connection with the Amp 511 ME/CFS cost recovery treatment program, Amp 516 ME/CFS Phase III clinical trial and the Amp 719 (combining Ampligen(R) with other antiviral drugs in HIV-salvage therapy and Amp 720 HIV Phase IIb clinical trials now under way). There can be no assurances that this alliance will develop a significant commercial position in any of its targeted chronic disease markets. The agreement had an initial one year term from February 9, 1998 with successive additional one year terms unless either party notifies the other not less than 180 days prior to the anniversary date of its intent to terminate the agreement. Also, the agreement may be terminated for uncured defaults, or bankruptcy, or insolvency of either party and will automatically terminate upon the Company's receiving an NDA for Ampligen(R) from the FDA, at which time, a new agreement will need to be negotiated with Accredo or another major drug distributor. There were no initial fees.

In December, 1999, the Company entered into an agreement with Biovail Corporation International ("Biovail"). Biovail is an international full service pharmaceutical company engaged in the formulation, clinical testing,

registration and manufacture of drug products utilizing advanced drug delivery systems. Biovail is headquartered in Toronto, Canada. The agreement grants Biovail the exclusive distributorship of the Company's product in the Canadian territories subject to certain terms and conditions. In return, Biovail agrees to conduct certain pre-marketing clinical studies and market development programs, including without limitation, expansion of the Emergency Drug Release Program in Canada with respect to the Company' products. Biovail agrees to work with the Company in preparing and filing of a New Drug Submission with Canadian Regulatory Authorities. Biovail invested $2.25 million in Hemispherx equity at prices above the then current market price and agreed to make further payments based on reaching certain regulatory milestones. The Agreement requires Biovail to penetrate certain market segments at specific rates in order to maintain market exclusivity. The agreement terminates on December 15, 2009, subject to successive two-year extensions by the parties and subject to earlier termination by the parties for uncured defaults under the agreement, bankruptcy or insolvency of either party, or withdrawal of the Company's product from Canada for a period of more than ninety days for serious adverse health or safety reasons.

In May 2000, the Company acquired an interest in Chronix Biomedical Corp. ("CHRONIX"). Chronix focuses upon the development of diagnostics for chronic diseases. The Company issued 100,000 shares of common stock to Chronix toward a total equity investment of $700,000. Pursuant to a strategic alliance agreement, the Company provided Chronix with $250,000 to conduct research in an effort to develop intellectual property on potential new products for diagnosing and treating various chronic illnesses such as ME/CFS. The strategic alliance agreement provides the Company certain royalty rights with respect to certain diagnostic technology developed from this research and a right of first refusal to license certain therapeutic technology developed from this research. The strategic alliance agreement provides the Company with a royalty payment of 10% of all net sales of diagnostic technology developed by Chronix for diagnosing Chronic Fatigue Syndrome, Gulf War Syndrome and Human Herpes Virus-6 associated diseases. The royalty continues for the longer of 12 years from September 15, 2000 or the life of any patent(s) issued with regard to the diagnostic technology. The strategic alliance agreement also provides the Company with the right of first refusal to acquire an exclusive worldwide license for any and all therapeutic technology developed by Chronix on or before September 14, 2012 for treating Chronic Fatigue Syndrome, Gulf War Syndrome and Human Herpes Virus-6 associated diseases. During the quarter ended December 31, 2002 and September 30, 2004 the Company recorded a noncash charge of $292,000 and $373,000, respectively, with respect to the Company's investment in Chronix. This impairment reduces the Company's carrying value to reflect a permanent decline in Chronix's market value based on its then proposed equity offerings.

In March 2002, the Company's European subsidiary Hemispherx S.A. entered into a Sales and Distribution agreement with Esteve. Pursuant to the terms of the Agreement, Esteve was granted the exclusive right to market Ampligen(R) in Spain, Portugal and Andorra for the treatment of ME/CFS. In addition to other terms and other projected payments, Esteve agreed to conduct certain clinical trials using Ampligen(R) in the patient population coinfected with HCV and HIV viruses. The Agreement runs for the longer of ten years from the date of first arms-length sale in the Territory, the expiration of the last Hemispherx patent exploited by Esteve or the period of regulatory data protection for Ampligen(R) in the applicable territory. Pursuant to the terms of the agreement Esteve is to conduct clinical trials using Ampligen(R) to treat patients with both HCV and HIV and is required to purchase certain minimum annual amounts of Ampligen(R) following regulatory approval. Esteve initiated the HIV/HCV clinical trials in

Spain in late 2004, but did not proceed with the trials due to an inability to enroll a sufficient number of patients. The Company is discussing with Esteve their initiation of another clinical trial utilizing Ampligen(R) in another indication. The agreement is terminable by either party if Ampligen(R) is withdrawn from the territory for a specified period due to serious adverse health or safety reasons; bankruptcy, insolvency or related issues of one of the parties; or material breach of the agreement. Hemispherx may transform the agreement into a non-exclusive agreement or terminate the agreement in the event that Esteve does not meet specified percentages of its annual minimum purchase requirements under the agreement. Esteve may terminate the agreement in the event that Hemispherx fails to supply Ampligen(R) to the territory for a specified period of time or certain clinical trials being conducted by Hemispherx are not successful. The last patent with respect to this agreement expires on June 5, 2012.

In October 2005, the Company signed a research agreement with the National Institute of Infectious Diseases, in Tokyo, Japan. The collaboration, by Hideki Hasegawa, M.D., Ph.D., Chief of the Laboratory of Infectious Disease Pathology, will assess the Company's experimental therapeutic Ampligen(R) as a co-administered immunotherapeutic to the Institution's nasal flu vaccine.

In October 2005, the Company also engaged the Sage Group, Inc., a health care, technology oriented, strategy and transaction advisory firm, to assist the Company in obtaining a strategic alliance in Japan for the use of Ampligen(R) in treating Chronic Fatigue Syndrome or CFS (see Note 17). The Company is in discussions with the Sage Group, Inc. to expand its engagement to assist the Company in obtaining strategic alliance in Japan for the use of Ampligen(R) in treating Avian Flu.

In November 2005, the Company entered into an agreement with Defence R&D Canada, Suffield ("DRDC Suffield"), an agency of the Canadian Department of National Defence, to evaluate the antiviral efficacy of the Company's experimental therapeutic Ampligen(R) and Alferon(R) for protection against human respiratory influenza virus infection in well validated animal models. DRDC Suffield is conducting research and development of new drugs that could potentially become part of the arsenal of existing antiviral weapons to combat the bird flu. The initial study will focus on the testing of potential drugs against the respiratory influenza virus infection on a mouse-adapted strain of human influenza.

On December 9, 2005, the Company executed a Supply Agreement with Hollister-Stier Laboratories LLC of Spokane, Washington ("Hollister-Stier"), for the contract manufacturing of Ampligen(R) for a five year term. Pursuant to the agreement the Company will supply the key raw materials and Hollister-Stier will formulate and bottle the Ampligen(R). In November 2005, the Company paid $100,000 as a deposit in order to initiate the manufacturing project. This deposit was expensed as research and development during the 4th Quarter 2005. The achievement of the initial objectives described in the agreement, in combination with the Company's polymer production facility under construction in New Brunswick, N.J., may enable the Company to manufacture the raw materials for approximately 10,000 doses of Ampligen(R) per week. The Company executed a confidentiality agreement with Hollister-Stier; therefore, the Company commenced the transfer of the Company's manufacturing technology to Hollister-Stier. Currently, Hollister-Stier has completed two pilot manufacturing runs of Ampligen(R) for stability testing.

The Company has entered into agreements for consulting services, which are

performed at medical research institutions and by medical and clinical research individuals. The Company's obligation to fund these agreements can be terminated after the initial funding period, which generally ranges from one to three years or on an as-needed monthly basis. During the year ending December 31, 2003, 2004 and 2005 the Company incurred approximately $389,000, $220,000 and $236,000 respectively, of consulting service fees under these agreements. These costs are charged to research and development expense as incurred.

(12) 401(K) Plan

The Company has a defined contribution plan, entitled the Hemispherx Biopharma Employees 401(K) Plan and Trust Agreement (the 401(K) Plan). Full time employees of the Company are eligible to participate in the 401(K) Plan following one year of employment. Subject to certain limitations imposed by federal tax laws, participants are eligible to contribute up to 15% of their salary (including bonuses and/or commissions) per annum. Participants' contributions to the 401(K) Plan may be matched by the Company at a rate determined annually by the Board of Directors.

Each participant immediately vests in his or her deferred salary contributions, while Company contributions will vest over one year. In 2003, 2004 and 2005 the Company provided matching contributions to each employee for up to 6% of annual pay aggregating $38,000, $77,000 and $89,000 respectively.

(13) Royalties, License, and Employment Agreements

The Company also has entered into a licensing agreement with a group of individuals and Hahnemann University relating to their contributions to the development of certain compounds, including Ampligen(R), and to obtain exclusive information and regulatory rights relating to these compounds. Under this agreement, the Company will pay 2% of net sales proceeds of Ampligen(R) not to exceed an aggregate amount of $6 million per year through 2005.

The Company acquired a series of patents on Oragens, potentially a set of oral broad spectrum antivirals and immunological enhancers, through a licensing agreement with Temple University in Philadelphia, PA. The Company was granted an exclusive worldwide license from Temple for the Oragens products. These compounds have been evaluated in various academic laboratories for application to chronic viral and immunological disorders. The 2', 5' oligoadenylate synthetase/RNase L system is an important and widely distributed pathway for the inhibition of viral replication and tumor growth. The 2', 5' oligoadenylate synthetase, up activation by double-stranded RNA, synthesizes 2', 5' oligoadenylates (2-5A) from ATP. These bioactive 2-5As directly activate RNase L, which degrades viral and cellular RNAs resulting in the inhibition of protein synthesis. The bioactive 2-5A molecules can be degraded by various hydrolytic enzymes, resulting in a short half life. Analogues of these bioactive 2-5As, termed Oragen(TM) RNA compounds, have been produced to increase stability and maintain or increase biological activity without demonstrable toxicity. Pursuant to the terms of the Company's agreement with Temple, the Company is obligated to pay royalties of 2% to 4% of sales depending on the amount of technical assistance required. The Company currently pays a royalty of $30,000 per year to Temple. This agreement is to remain in effect until the date that the last licensed patent expires unless terminated sooner by mutual consent or default due to royalties not being paid. The last Oragen(TM) patent expires on June 1, 2018. The Company records the payment of the royalty as research and development cost for the period incurred.

In October 1994, the Company entered into a licensing agreement with Bioclones (Propriety) Limited (SAB/Bioclones) with respect to co-development of various RNA drugs, including Ampligen(R), for a period ending three years from the expiration of the last licensed patents. The licensing agreement provided SAB/Bioclones with an exclusive manufacturing and marketing license for certain southern hemisphere countries (including certain countries in South America, Africa and Australia as well as the United Kingdom and Ireland (the licensed territory). We deem this marketing arrangement with Bioclones void due to the numerous and long standing failures of performance by Bioclones.

In December 2004, the Company filed a multicount complaint in federal court (Southern District of Florida) against a conspiratorial group, which includes Bioclones, seeking to illegally manipulate the Company's stock for purposes of bringing about a hostile takeover of Hemispherx (see Note 16).

In October 1994, the Board of Directors granted an at the time director of the Company the right to receive 3% of gross proceeds of any licensing fees received by the Company pursuant to the SAB/Bioclones licensing agreement, a fee of .75% of gross proceeds in the event that SAB Bioclones makes a tender offer for all or substantially all of the Company's assets, including a merger, acquisition or related transaction, and a fee of 1% on all products manufactured by SAB Bioclones.

On March 20, 2002, the Company's European subsidiary Hemispherx Biopharma Europe, S.A. ("Hemispherx S.A.") entered into a sales and Distribution agreement with Laboratories Del Dr. Esteve S.A. ("Esteve"). Pursuant to the terms of the agreement, Esteve was granted the exclusive right to market Ampligen(R) in Spain, Portugal and Andorra for the treatment of Myalgic/Chronic Fatigue Syndrome ("ME/CFS"). In addition to other terms and other projected payments, Esteve paid an initial and non-refundable fee of 625,000 Euros (approximately $563,000) to Hemispherx S.A. on April 24, 2002. Esteve is to pay a fee of 1,000,000 Euros after U.S. Food and Drug Administration approval of Ampligen(R) for the treatment of ME/CFS and a fee of 1,000,000 Euros upon Spain's approval of the final marketing authorization for using Ampligen(R) for the treatment of ME/CFS.

In connection with the asset purchase agreement entered into with ISI, the Company is obligated to pay ISI a 6% royalty on the net sales of the Alferon N Injection(R) product.

The Company has contractual agreements with two of its officers. The aggregate annual base compensation under these contractual agreements for 2003, 2004 and 2005 was $637,000, $761,000 and $701,000 respectively. In addition, certain of these officers are entitled to receive performance bonuses of up to 25% of the annual base salary (in addition to the bonuses described below). In 2003, 2004 and 2005, bonuses of $266,100, $165,300 and $175,300 respectively were granted. In 2003, the Chief Executive Officer, Dr. William A. Carter, of the Company was granted warrants to purchase 1,450,000 shares of common stock at $2.20 per share. The Chief Executive Officer's employment agreement (see below) provides for bonuses based on gross proceeds received by the Company from any joint venture or corporate partnering agreement. In 2004, the Chief Executive Officer of the Company was granted options to purchase 320,000 shares of common stock at $2.60 per share and $3.44 per share and the Chief Financial Officer of the Company was granted options to purchase 63,824 shares of common stock at $2.60 and $3.44 per share. In 2005, the Chief Executive Officer of the Company was granted options to purchase 645,000 shares of common stock at $1.75 to $2.87 per share and the Chief Financial Officer of the Company was granted options to purchase 110,000 shares of common stock at $1.75 to $2.61 per share.

On March 11, 2005, the Company's board of directors, at the recommendation of the Compensation Committee, approved an amended and restated employment agreement and an amended and restated engagement agreement with Dr. William A. Carter.

The amended and restated employment agreement provides for Dr. Carter's employment as the Company's Chief Executive Officer and Chief Scientific Officer until December 31, 2010 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date unless the Company or Dr. Carter give written notice otherwise at least ninety days prior to the termination date or any renewal period. Dr. Carter has the right to terminate the agreement on 30 days' prior written notice. The initial base salary retroactive to January 1, 2005 is $290,888, subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. In addition, Dr. Carter could receive an annual performance bonus of up to 25% of his base salary, at the sole discretion of the Compensation Committee of the board of directors, based on his performance or the Company's operating results. Dr. Carter will not participate in any discussions concerning the determination of his annual bonus. Dr. Carter is also entitled to an incentive bonus of 0.5% of the gross proceeds received by us from any joint venture or corporate partnering arrangement. Dr. Carter's agreement also provides that he be paid a base salary and benefits through the last day of the then term of the agreement if he is terminated without "cause", as that term is defined in agreement. In addition, should Dr. Carter terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Dr Carter be paid a base salary and benefits through the last day of the month in which the termination occurred and for an additional twelve month period. Pursuant to his original agreement, Dr. Carter was granted options to purchase 73,728 (post split) shares in 1991. The exercise period of these options is extended through December 31, 2010 and, should Dr. Carter's employment agreement be extended beyond that date, the option exercise period is further extended to the last day of the extended employment period. In accordance with FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, no compensation expense was recognized as the exercise price at the extension date exceeded the fair value of the underlying common stock.

The amended and restated engagement agreement, retroactive to January 1, 2005, provides for the Company's engagement of Dr. Carter as a consultant related to patent development, as one of the Company's directors and as chairman of the Executive Committee of the Company's board of directors until December 31, 2010 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date or any renewal period. Dr. Carter has the right to terminate the agreement on 30 days' prior written notice. The initial base fee as of January 1, 2004 is $207,777, subject to annual adjustments equal to the percentage increase or decrease of annual dollar value of directors' fees provided to the Company's directors during the prior year. The annual fee is further subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. In addition, Dr. Carter could receive an annual performance bonus of up to 25% of his base fee, at the sole direction of the Compensation Committee of the board of directors, based on his performance. Dr. Carter will not participate in any discussions concerning the determination of this annual bonus. Dr. Carter's agreement also provides that he be paid his base fee through the last day of the then term of the agreement if he is terminated without "cause", as that term is defined in the agreement. In addition, should Dr. Carter terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Dr. Carter be paid fees due him through the last day of the month in which the termination occurred and for an additional twelve month period.

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On February 14, 2005 the Company entered into an agreement with The Sage Group of Branchburg, New Jersey for R. Douglas Hulse, an Executive Director of The Sage Group, to serve as President and Chief Operating Officer of the Company. In addition, other Sage Group principals and Senior Directors will be made available to assist as needed. The engagement is expected to continue for a period of 18 months; however, it is terminable on 30 days written notice by either party after 12 months. Compensation for the services includes a ten year warrant to purchase 250,000 shares of the Company's common stock at an exercise price of $1.55. These warrants are to be issued to Sage Healthcare Advisors, LLC and are to vest at the rate of 12,500 per month of the engagement with 25,000 vesting upon completion of the eighteenth month. Vesting accelerates in the event of a merger or a purchase of a majority of the Company's assets or equity. The Sage Group also is to receive a monthly retainer of $10,000 for the period of the engagement. In addition, for each calendar year (or part thereof) during which the agreement is in effect, The Sage Group will be entitled to an incentive bonus in an amount equal to 0.5% of the gross proceeds received by us during such year from any joint ventures or corporate partnering arrangements. After termination of the agreement, The Sage Group will only be entitled to receive the incentive bonus based upon gross proceeds received by us during the two year period commencing on the termination of the agreement with respect to any joint ventures or corporate partnering arrangements entered into by us during the term of the agreement. Mr. Hulse will devote approximately two to two and one half days per week to the Company's business. The Company used the Black-Scholes valuation model to value the shares received by the Sage Group pursuant to the agreement. The Company recorded a charge to earnings of approximately $124,000 in 2005 with a related increase to additional paid in capital.

The Company entered into an engagement agreement, retroactive to January 1, 2005, with Ransom W. Etheridge which provides for Mr. Etheridge's engagement as the Company's General Counsel until December 31, 2009 unless sooner terminated for cause or disability. The agreement automatically renews for successive one year periods after the initial termination date unless the Company or Mr. Etheridge give written notice otherwise at least ninety days prior to the termination date or any renewal period. Mr. Etheridge has the right to terminate the agreement on 30 days' prior written notice. The initial annual fee for services is $96,000 and is annually subject to adjustment based on the average increase or decrease in the Consumer Price Index for the prior year. Mr. Etheridge's agreement also provides that he be paid all fees through the last day of then current term of the agreement if he is terminated without "cause" as that term is defined in the agreement. In addition, should Mr. Etheridge terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Mr. Etheridge be paid the fees due him through the last day of the month in which the termination occurred and for an additional twelve month period. Mr. Etheridge will devote approximately 85% of his business time to the Company's business.

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The Company entered into an amended and restated engagement agreement, retroactive to January 1, 2005, with Robert E. Peterson which provides for Mr. Peterson's engagement as the Company's Chief Financial Officer until December 31, 2010 unless sooner terminated for cause or disability. Mr. Peterson has the right to terminate the agreement on 30 days' prior written notice. The initial

annual fee for services is $202,680 and is annually subject to increases based on the average increase in the cost of inflation index for the prior year. Mr. Peterson shall receive an annual bonus in each year that the Company's Chief Executive Officer is granted a bonus. The bonus shall equal a percentage of Mr. Peterson's base annual compensation comparable to the percentage bonus received by the Chief Executive Officer. In addition, Mr. Peterson shall receive bonus compensation upon Federal Drug Administration approval of commercial application of Ampligen(R). Mr. Peterson's agreement also provides that he be paid all fees through the last day of then current term of the agreement if he is terminated without "cause" as that term is defined in the agreement. In addition, should Mr. Peterson terminate the agreement or the agreement be terminated due to his death or disability, the agreement provides that Mr. Peterson be paid the fees due him through the last day of the month in which the termination occurred and for an additional twelve month period. Mr. Peterson will devote approximately 85% of his business time to the Company's business.

On March 11, 2005 the Board of Directors, deeming it essential to the best interests of the Company's shareholders to foster the continuous engagement of key management personnel and recognizing that, as is the case with many publicly held corporations, a change of control might occur and that such possibility, and the uncertainty and questions which it might raise among management, might result in the departure or distraction of management personnel to the detriment of the Company and the Company's shareholders, determined to reinforce and encourage the continued attention and dedication of members of the Company's management to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company and entered into identical agreements regarding change in control with William A. Carter, the Company's Chief Executive Officer and Chief Scientific Officer, Robert E. Peterson, the Company's Chief Financial Officer and Ransom W. Etheridge, the Company's General Counsel. Each of the agreements regarding change in control became effective March 11, 2005 and continue through December 31, 2007 and shall extend automatically to the third anniversary thereof unless the Company gave notice to the other party prior to the date of such extension that the agreement term will not be extended. Notwithstanding the foregoing, if a change in control occurs during the term of the agreements, the term of the agreements will continue through the second anniversary of the date on which the change in control occurred. Each of the agreements entitles William A. Carter, Robert E. Peterson and Ransom W. Etheridge, respectively, to change of control benefits, as defined in the agreements and summarized below, upon their respective termination of employment/engagement with the Company during a potential change in control, as defined in the agreements or after a change in control, as defined in the agreements, when their respective terminations are caused (1) by us for any reason other than permanent disability or cause, as defined in the agreement (2) by William A. Carter, Robert E. Peterson and/or Ransom W. Etheridge, respectively, for good reason as defined in the agreement or, (3) by William A. Carter, Robert E. Peterson and/or Ransom W. Etheridge, respectively for any reason during the 30 day period commencing on the first date which is six months after the date of the change in control.

The benefits for each of the foregoing executives would be as follows:

- A lump sum cash payment of three times his base salary and annual bonus amounts; and
- Outplacement benefits.

Each agreement also provides that the executive is entitled to a "gross-up" payment to make him whole for any federal excise tax imposed on change of

control or severance payments received by him. Dr. Carter's agreement also provides for the following benefits:

- Continued insurance coverage through the third anniversary of his termination; and
- Retirement benefits computed as if he had continued to work for the above period.

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

In October 2003, in recognition of this action as well as Dr. Carter's prior and on-going efforts relating to product development securing critically needed financing and the acquisition of a new product line, the Compensation Committee determined that Dr. Carter be awarded bonus compensation in 2003 consisting of $196,636 and a grant of 1,450,000 stock warrants for a value of $1,769,000 with an exercise price of $2.20 per share. These warrants vested upon the second ISI Asset closing during the first quarter 2004 and the Company recorded stock compensation of $1,769,000.

The Company has engaged the Sage Group, Inc., a health care, technology oriented, strategy and transaction advisory firm, to assist the Company in obtaining a strategic alliance in Japan for the use of Ampligen(R) in treating Chronic Fatigue Syndrome or CFS. R. Douglas Hulse, the Company's President and Chief Operating Officer, is a member and an executive director of The Sage Group, Inc.

(14) Leases

The Company has several noncancellable operating leases for the space in which its principal offices are located and certain office equipment.

Future minimum lease payments under noncancellable operating leases are as follows:

Year ending December 31,	(000's omitted) Operating leases
2006	$193
2007	65
Total minimum lease payments	$258

Rent expense charged to operations for the years ended December 31, 2003, 2004 and 2005 amounted to approximately $266,000, $269,000 and $284,000 respectively. The term of the lease for the Rockville, Maryland facility expired June 2005. The Company transferred this operational site to the Company's New Jersey facility. The term of the lease for the Philadelphia, Pennsylvania offices is through April, 2007 with an average rent of $15,000 per month, plus applicable taxes and charges.

(15) Income Taxes

As of December 31, 2005, the Company has approximately $81,500,000 of federal net operating loss carryforwards (expiring in the years 2006 through 2026) available to offset future federal taxable income. The Company also has approximately $28,000,000 of state net operating loss carryforwards (expiring in the years 2006 through 2010) available to offset future state taxable income. The utilization of certain state net operating loss carryforwards may be subject to annual limitations.

Under the Tax Reform Act of 1986, the utilization of a corporation's net operating loss carryforward is limited following a greater than 50% change in ownership. Due to the Company's prior and current equity transactions, the Company's net operating loss carryforwards may be subject to an annual limitation generally determined by multiplying the value of the Company on the date of the ownership change by the federal long-term tax exempt rate. Any unused annual limitation may be carried forward to future years for the balance of the net operating loss carryforward period.

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for income tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Due to the uncertainty of the Company's ability to realize the benefit of the deferred tax asset, the deferred tax assets are fully offset by a valuation allowance at December 31, 2004 and 2005.

The components of the net deferred tax asset of December 31, 2004 and 2005 consists of the following:

	(000's omitted)	
Deferred tax assets:	2004	2005
	(Restated)	
Net operating losses	$ 26,864	$ 27,715
Accrued Expenses and Other	77	(43)
Capitalized Research and development costs	1,059	1,348
Total	28,000	29,020
Less: Valuation Allowance	(28,000)	(29,020)
Balance	$ -0-	$ -0-

(16) Contingencies

On September 30, 1998, the Company filed a multi-count complaint against Manuel P. Asensio, Asensio & Company, Inc. ("Asensio"). The action included claims of defamation, disparagement, tortuous interference with existing and prospective business relations and conspiracy, arising out of Asensio's false and defamatory statements. The complaint further alleged that Asensio defamed and disparaged the Company in furtherance of a manipulative, deceptive and unlawful short-selling scheme in August and September, 1998. In 1999, Asensio

filed an answer and counterclaim alleging that in response to Asensio's strong sell recommendation and other press releases, the Company made defamatory statements about Asensio. The Company denied the material allegations of the counterclaim. In July 2000, following dismissal in federal court for lack of subject matter jurisdiction, the Company transferred the action to the Pennsylvania State Court. In March 2001, the defendants responded to the complaints as amended and a trial commenced on January 30, 2002. A jury verdict disallowed the claims against the defendants for defamation and disparagement and the court granted the Company a directed verdict on the counterclaim. On July 2, 2002 the Court entered an order granting the Company a new trial against Asensio for defamation and disparagement. Thereafter, Asensio appealed the granting of a new trial to the Superior Court of Pennsylvania. The Superior Court of Pennsylvania has denied Asensio's appeal. Asensio petitioned the Supreme Court of Pennsylvania for allowance of an appeal, which was denied. The Company now anticipates the scheduling of a new trial against Asensio for defamation and disparagement in the Philadelphia Common Pleas Court.

In June 2002, a former ME/CFS clinical trial patient and her husband filed a claim in the Superior Court of New Jersey, Middlesex County, against the Company, one of its clinical trial investigators and others alleging that she was harmed in the ME/CFS clinical trial as a result of negligence and breach of warranties. On June 25, 2004 all claims against the Company were dismissed with prejudice. The former ME/CFS clinical trial patient and her husband have now appealed the dismissal of their claims to the New Jersey Superior Court, Apellate Division, who upheld the dismissal of all claims against the Company and the matter is now concluded.

In June 2002, a former ME/CFS clinical trial patient in Belgium filed a claim in Belgium, against Hemispherx Biopharma Europe, NV/SA, the Company's Belgian subsidiary, and one of the Company's clinical trial investigators alleging that she was harmed in the Belgium ME/CFS clinical trial as a result of negligence and breach of warranties. The Company believes the claim is without merit and the Company is defending the claim against the Company through its product liability insurance carrier.

In December 2004, the Company filed a multicount complaint in federal court (Southern District of Florida) against a conspiratorial group, which includes Bioclones, seeking to illegally manipulate its stock for purposes of bringing about a hostile takeover of Hemispherx. The lawsuit alleges that the conspiratorial group commenced with a plan to seize control of its cash and proprietary assets by an illegal campaign to drive down its stock price and publish disparaging reports on the Company's management and current fiduciaries. The lawsuit seeks monetary damages from each member of the conspiratorial group as well as injunctions preventing further recurrences of their misconduct. The conspiratorial group includes Bioclones, a privately held South African Biopharmaceutical company that collaborated with the Company (see Note 13), and Johannesburg Consolidated Investments, a South African corporation, Cyril Donninger, R. B. Kebble, H. C. Buitendag, Bart Goemaere, and John Doe(s). Bioclones, Johannesburg Consolidated Investments, Cyril Donninger, R. B. Kebble and H.C. Buitendag filed a motion to dismiss the complaint, which was granted by the court. The Company is in the process of appealing this decision to the 11th federal circuit court of appeals.

On January 10, 2005, the Company initiated a multicount lawsuit in the United States District Court for the Eastern District of Pennsylvania seeking injunctive relief and damages against a conspiratorial group, many of whom are foreign nationals or companies located outside the United States alleging that

the conspiratorial group has engaged in secret meetings, market manipulations, fraudulent misrepresentations, utilization of foreign accounts and foreign secrecy laws all in furtherance of an illegal scheme to take over Hemispherx and enrich themselves at the expense of Hemispherx's public shareholders. On February 18, 2005 the Company filed an amended complaint in the same lawsuit joining Redlabs, USA, Inc. as a defendant with the existing defendants R.E.D. Laboratories, N.V./S.A., Bart Goemaere, Jan Goemaere, Dr. Kenny De Meirleir, Kenneth Schepmans, Johan Goossens, Lieven Vansacker and John Does. Pursuant to an agreement in which R.E.D. Laboratories, N.V./S.A. and Dr. Kenny DeMeirleir agreed not to participate in a hostile takeover of Hemispherx for a period of five years, R.E.D. Laboratories, N.V./S.A. and Dr. Kenny DeMeirleir have been dismissed as defendants in the litigation. The litigation is proceeding against the remaining defendants.

(17) Certain Relationships and Related Transactions

The Company has employment agreements with certain of its executive officers and have granted such officers and directors options and warrants to purchase its common stock, as discussed in Note 9.

Ransom W. Etheridge, the Company's Secretary, General Counsel and one of its directors, is an attorney in private practice, who renders corporate legal services to us from time to time, for which he has received fees totaling $88,000 in 2005. In addition, Mr. Etheridge serves on the Board of Directors for which he received Director's Fees of cash and stock valued at $100,000 in 2005. We loaned $60,000 to Ransom W. Etheridge in November 2001 for the purpose of exercising 15,000 class A redeemable warrants. This loan bears interest at 6% per annum. This loan was granted prior to the enactment of the Sarbanes Oxley Act of 2002 prohibiting such transactions. In lieu of granting Mr. Etheridge a bonus for outstanding legal work performance on behalf of the Company, the Board of Directors forgave the loan and accrued interest on February 24, 2006.

Richard Piani, a Director, lives in Paris, France and assisted the Company's European subsidiaries in their dealings with medical institutions and the European Medical Evaluation Authority. Mr. Piani assisted the Company in establishing clinical trial protocols as well as performed other scientific work for the Company. The services provided by Mr. Piani terminated in September 2003. For these services, Mr. Piani was paid an aggregate of $100,100 for the year ended December 31, 2003.

The Company paid $18,800, and $7,600 for the years ended December 31, 2003 and 2004, respectively to Carter Realty for the rent of property used by the Company at various times in years 2003 and 2004. The property was owned by others, but was acquired in late 2004 by Retreat House, LLC, an entity in which the children of William A. Carter have a beneficial interest. The Company paid Retreat House, LLC $54,000 for the use of the property at various times in 2005.

Antoni Esteve, one of the Company's former directors, was a Member of the Executive Committee and Director of Scientific and Commercial Operations of Laboratorios Del Dr. Esteve S.A (see Note 9(c)).

On February 14, 2005 the Company entered into an agreement with The Sage Group of Branchburg, New Jersey for R. Douglas Hulse, an Executive Director of The Sage Group, to serve as President and Chief Operating Officer of the Company (See Notes 3 and 11 for additional information concerning this agreement).

(18) Concentrations of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, cash equivalents, investments and accounts receivable. The Company places its cash with high-quality financial institutions. At times, such amount may be in excess of Federal Deposit Insurance Corporation insurance limits of $100,000.

Sales to three large wholesalers represented approximately 74% and 80% of the Company's total sales for the years ended December 31, 2004 and 2005, respectively.

(19) Quarterly Results of Operation (unaudited)

The following is a summary of the unaudited quarterly results of operations:

2004
(in thousand except per share data)

	March 31, 2004 As previously reported(1)	March 31, 2004 Restated(2)	June 30, 2004 As previously reported	June 30, 2004 Restated(2)	September 30, 2004 As previously reported	September 30, 2004 Restated(2)	D 3 pr r
Revenues	$ 308	$ 308	$ 331	$ 331	$ 258	$ 258	$
Costs and expenses	4,409	4,409	2,526	2,526	2,972	2,972	
Net loss	(8,042)	(7,064)	(5,956)	(2,784)	(7,007)	(4,152)	
Deemed dividend(4)	--	--	--	(2,355)	--	(1,676)	
Net loss applicable to common stockholders	$(8,042)	$(7,064)	$(5,956)	$(5,139)	$(7,007)	$(5,828)	
Basic and diluted loss per share	$ (.20)	$ (.17)	$ (.14)	$ (.12)	$ (.15)	$ (.12)	

See Note 2 for restated year end results for the year ended December 31, 2004. As discussed, in Note 2, the Company will file its quarterly reports on Form 10-Q/A for the quarterly periods ended March 31, 2005, June 30, 2005 and September 30, 2005, which will include the quarters ended in 2004 as soon as practicable.

(1) During the first quarter 2004, the Company recorded stock compensation of $1,769,000 (See Note 9(b)) and during the third quarter 2004, the Company recorded stock compensation of $231,000.

(2) The Company re-evaluated the accounting for the March 2003, July 2003,

October 2003, January 2004 and July 2004 Debentures (collectively, "the Debentures") to determine whether the embedded conversion options required bifurcation and fair value accounting in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock". The Company concluded that bifurcation was not required and that EITF 00-27 should have been applied. We did initially apply EITF 00-27, however as part of performing an analysis on the guidelines set forth in EITF 00-27 it was determined that the initial accounting treatment and subsequent price resets for the Debentures that were originally applied and reflected in the financial were not correctly applied. To properly account for the initial calculation of the discount and the conversion price resets triggered upon the issuance of the issuance of the October 2003 Debenture and the August 2004 Private Placement (See Notes 8 & 9 for more details on these resets), it was determined, under guidance from EITF 00-27 that the debt discount should be restated for the Debentures.

(3) The estimation of fair value ascribed to and the accounting treatment of the investment banking fees paid to Cardinal Capital, LLC ("Cardinal") in connection with the Debenture issuances, at inception, was inaccurately reflected in the financial statements included in our Quarterly reports on Form 10-Q and that, therefore, a restatement of our financial statements for the periods referenced above was required. In connection with the initial recording of the Debentures mentioned above, it was determined that the fair value of the warrants issued as investment banking fees paid to Cardinal, be accounted for as a discount to Debentures. These investment banking fees should have been capitalized as deferred financing costs and amortized over the life of the Debentures or charged to earnings on the earlier conversion thereof. In addition, the initial calculation of the fair value of the warrants issued to Cardinal as a part of the Debenture issuances was determined to have been applied incorrectly at the time of issuance.

(4) The accounting treatment set forth is FASB Statement No. 123, "Accounting for Stock-Based Compensation", for the issuance of the June 2008, May 2009 and June 2009 Warrants (collectively "the Warrants") (See Note 8) that was originally interpreted and reflected in the financial statements was not correctly applied. The warrants issued as incentive to exercise prior warrant issuances are reflected as a deemed dividend at the date of issuance, where previously these warrants were either recorded as additional debt discount or as a financing charge at date of issuance.

2005

(in thousand except per share data)

	March 31, 2005 As previously reported	March 31, 2005 Restated ((1)(2)(4)	June 30, 2005 As previously reported	June 30, 2005 Restated ((1)(2)(4))	September 30, 2005 As previously reported	Septembe 30, 2005 Restated ((1)(2)(3
Revenues	$ 258	$ 258	$ 300	$ 300	$ 271	$ 27

Costs and expenses	2,348	2,393	2,670	2,784	2,386	2,46
Net loss applicable to common stockholders	(3,055)	(2,980)	(3,816)	(3,345)	(2,887)	(2,64
Basic and diluted loss per share	$ (.07)	$ (.07)	$ (.08)	$ (.07)	$ (.06)	$ (.0

(1) The Company re-evaluated the accounting for the March 2003, July 2003, October 2003, January 2004 and July 2004 Debentures (collectively, "the Debentures") to determine whether the embedded conversion options required bifurcation and fair value accounting in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock". The Company concluded that bifurcation was not required and that EITF 00-27 should have been applied. The Company did initially apply EITF 00-27, however as a part of performing an analysis on the guidelines set forth in EITF 00-27 it was determined that the initial accounting treatment and subsequent price resets for the Debentures that were originally applied and reflected in the financial statements were not correctly applied. To properly account for the initial calculation of the discount and the conversion price resets triggered upon the issuance of the issuance of the October 2003 Debenture and the August 2004 Private Placement (See Notes 8 & 9 to the consolidated financial statements contained herein for more details on these resets), it was determined, under guidance from EITF 00-27 that the debt discount should be restated for the Debentures. The total impact of this restatement on our statement of operations was to decrease the net loss applicable to common stockholders for the year ended December 31, 2004 by $2,959,000 or $0.07 per share, and to increase the net loss applicable to common stockholders by $287,000 or $0.01 per share for the year ended December 31, 2003.

(2) The estimation of fair value ascribed to and the accounting treatment of the investment banking fees paid to Cardinal Capital, LLC ("Cardinal") in connection with the Debenture issuances, at inception, was inaccurately reflected in the financial statements included in our Quarterly Reports on Form 10-Q and that, therefore, a restatement of our financial statements for the periods referenced above was required. In connection with the initial recording of the Debentures mentioned above, it was determined that the fair value of the warrants issued as investment banking fees paid to Cardinal, be accounted for as a discount to Debentures. These investment banking fees should have been capitalized as deferred financing costs and amortized over the life of the Debentures or charged to earnings on the earlier conversion thereof. In addition, the initial calculation of the fair value of the warrants issued to Cardinal as a part of the Debenture issuances was determined to have been applied incorrectly at the time of issuance. The total impact of this restatement on our statement of operations was to decrease non-cash finance charges for the years ended December 31, 2003 and 2004 by $1,320,000 and $4,031,000, or $0.04 and $0.08 per share, respectively, and increase the net loss to common stockholders for the years ended December 31, 2003 and 2004 due to the deemed dividend by $1,320,000 and $4,031,000, or $0.04 and $0.08 per share, respectively.

(3) The Company recorded $241,000 in other income incorrectly in the third quarter 2005 related to the termination of the MOU notice received by Astellas. This amount was subsequently adjusted back to an accrued liability as of December 31, 2005, as the agreement has not yet been formally terminated.

(4) The accounting for certain warrants and options issued to non-employees and our interpretation and application of FASB No. 123 was not correct in 2005.

(20) Subsequent Events

On February 8, 2006, the Company executed a Manufacturing and Safety Agreement with Hyaluron, Inc. ("Hyaluron") of Burlington, Massachusetts, for the formulation, packaging and labeling of Alferon N Injection(R). Pursuant to the Agreement, the Company will supply raw materials in sufficient quantity and provide any pertinent information to the project.

On March 21, 2006, the debenture holders converted $500,000 of the July 2004 debenture into 240,385 shares of common stock.

The Company failed to timely file its Annual Report on Form 10-K with the Securities and Exchange Commission pursuant to the 1934 Act, and therefore, was in violation of its covenant to timely file within its debenture agreements. The Company obtained a waiver letter from its debenture holders regarding the failure to meet this covenant. In addition, as a result of the Company's inability to timely file its annual report on Form 10-K for the year ended December 31, 2005, the Company currently is subject to liquidated damages until such time as the shares issuable upon conversion of and interest under the debentures, and shares issuable upon exercise of the warrants are again registered for public resale or eligible for resale pursuant to Rule 144(k) under the Securities Act. The Company anticipates the liquidated damages not to exceed $250,000.

During 2006, the Company has issued an additional 4,913,669 shares for proceeds of $11,979,994 which completes the terms of the July 8, 2005, Fusion Capital agreement (see Note 9(d)).

On April 3, 2006, the Company received a notice from the staff of The American Stock Exchange ("AMEX") indicating that it is not in compliance with Sections 134 and 1101 of the AMEX Company Guide and its listing agreement due to the Company's failure to file its annual report on Form 10-K for the fiscal year ended December 31, 2005 with audited financial statements on a timely basis. The AMEX has granted an extension of the listing of the Company's common stock until June 30, 2006, provided that the Company files its Form 10-K for 2005 by June 2, 2006 and provided that it files its Form 10-Q for the first quarter of 2006 by June 30, 2006. During the extension period, the Company will be subject to periodic review by AMEX staff. If the Company fails to meet any of the foregoing deadlines, the AMEX has indicated that it will begin delisting proceedings.

On April 12, 2006, the Company entered into a Common Stock Purchase Agreement ("Purchase Agreement") with Fusion Capital. Pursuant to the terms of the Purchase Agreement, Fusion Capital has agreed to purchase from the Company up to $50,000,000 of common stock over a period of approximately twenty-five (25) months. Pursuant to the terms of the Registration Rights Agreement, dated as of April 12, 2006, we agreed to file a registration statement (the "Registration

Statement") with the Securities and Exchange Commission on or before June 30, 2006 covering the shares which are issued to or may be issued to Fusion Capital under the Purchase Agreement. Once the Registration Statement has been declared effective, each trading day during the term of the Purchase Agreement we have the right to sell to Fusion Capital up to $100,000 of our common stock on such date or the arithmetic average of the three lowest closing trade prices of the common stock during the immediately proceeding 12 trading day period. At our option under certain conditions, Fusion Capital can be required to purchase greater amounts of common stock during a given period. In connection with entering into the Purchase Agreement, the Company issued to Fusion Capital 321,751 shares of our common stock. This offering was made pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

Hemispherx Biopharma, Inc.
Schedule II –Valuation and Qualifying Accounts
(dollars in thousands)

Column A Description	Column B Balance at beginning of period	Column C Charge to expense	Column D Write-offs	Column E Balance at end of period
Year Ended December 31, 2005				
Reserve for inventory	$225	--	(125)	$100
Year Ended December 31, 2004				
Reserve for inventory	$ --	225	--	$225
Year Ended December 31, 2003				
Reserve for inventory	$ --	--	--	$ --