

HEMISPHERX BIOPHARMA INC
Form 10-Q
November 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2014

Commission File Number: 1-13441

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1617 JFK Boulevard, Suite 500, Philadelphia, PA 19103
(Address of principal executive offices) (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company

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

200,027,874 shares of common stock were outstanding as of November 1, 2014.

PART I - FINANCIAL INFORMATION

ITEM 1: Financial Statements

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except for share and per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,262	\$803
Marketable securities	16,169	17,391
Prepaid expenses and other current assets	235	358
Total current assets	17,666	18,552
Property and equipment, net	4,716	5,053
Patent and trademark rights, net	853	1,080
Construction in progress	7,269	7,046
Other assets	134	136
Total assets	\$30,638	\$31,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,447	\$1,271
Accrued expenses	1,781	1,228
Current portion of capital lease	29	33
Total current liabilities	4,257	2,532
Long-term liabilities		
Long-term portion of capital lease	3	23
Redeemable warrants	13	14
Total liabilities	4,273	2,569
Commitments and contingencies (Notes 6, 8, 10)		
Stockholders' equity:		
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 350,000,000 shares; issued and outstanding 193,708,424 and 168,660,370, respectively	194	168
Additional paid-in capital	299,598	289,563
Accumulated other comprehensive loss	(114)	(114)
Accumulated deficit	(273,313)	(260,319)
Total stockholders' equity	26,365	29,298
Total liabilities and stockholders' equity	\$30,638	\$31,867

See accompanying notes to consolidated financial statements.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss

(in thousands, except share and per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Clinical treatment programs	\$45	\$36	\$157	\$114
Total revenues	45	36	157	114
Costs and expenses:				
Production/cost of goods sold	306	252	923	1,078
Research and development	1,894	2,173	6,550	6,827
General and administrative	2,174	2,070	7,210	5,964
Total costs and expenses	4,374	4,495	14,683	13,869
Operating loss	(4,329	) (4,459	) (14,526	) (13,755
Interest expense	(3	) (4	) (9	) (14
Interest and other income	130	89	414	624
Other than temporary impairment loss on marketable securities	—	(800	) —	(800
Gain from sale of income tax net operating losses	—	—	1,126	686
Redeemable warrants valuation adjustment	—	38	1	229
Net loss	(4,202	) (5,136	) (12,994	) (13,030
Other Comprehensive Income (Loss):				
Unrealized gain (loss) on marketable securities	(169	) 197	—	(848
Reclassification adjustments for impairment losses included in net loss	—	800	—	800
Net comprehensive loss	\$(4,371	) \$(4,139	) \$(12,994	) \$(13,078
Basic and diluted loss per share	\$(0.02	) \$(0.03	) \$(0.07	) \$(0.08
Weighted average shares outstanding, basic and diluted	190,677,576	167,389,685	184,434,475	167,135,111

See accompanying notes to consolidated financial statements.

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HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Nine Months Ended September 30, 2014

(in thousands except share data)

(Unaudited)

	Common Stock Shares	Common Stock \$0.001 Par Value	Additional Paid-In Capital	Accumulated Other Compre- hensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2013	168,660,370	\$ 168	\$ 289,563	\$ (114)	\$ (260,319)	\$ 29,298
Stock issued for settlement of accounts payable	153,273	—	38	—	—	38
Equity-based compensation	—	—	260	—	—	260
Shares sold at the market	24,894,781	26	9,737	—	—	9,763
Net comprehensive loss	—	—	—	—	(12,994)	(12,994)
Balance at September 30, 2014	193,708,424	\$ 194	\$ 299,598	\$ (114)	\$ (273,313)	\$ 26,365

See accompanying notes to consolidated financial statements.

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HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2014 and 2013

(in thousands)

(Unaudited)

	2014		2013	
Cash flows from operating activities:				
Net loss	\$(12,994	)	\$(13,030)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation of property and equipment	500		504	
Amortization and abandonment of patent and trademark rights	414		144	
Redeemable warrants valuation adjustment	(1	)	(229)
Equity-based compensation	260		292	
Change in assets and liabilities:				
Inventories	—		453	
Prepaid expenses and other current assets	123		(10)
Accounts payable	1,214		(197)
Accrued expenses	553		(1,573)
Net cash used in operating activities	(9,931	)	(13,646)
Cash flows from investing activities:				
Purchase of property, equipment and construction in progress	(386	)	(747)
Additions to patent and trademark rights	(187	)	(184)
Deposits on capital leases refunded	2		3	
Deposit paid on office lease	—		(74)
Maturities of short-term and long-term marketable securities	1,222		14,070	
Net cash provided by investing activities	651		13,068	

See accompanying notes to consolidated financial statements.

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HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the Nine Months Ended September 30, 2014 and 2013

(in thousands)

(Unaudited)

	2014		2013	
Cash flows from financing activities:				
Payments on capital leases	\$(24	)	\$(36)
Proceeds from sale of stock, net of issuance costs	9,763		—	
Net cash provided by (used in) financing activities	9,739		(36)
Net increase (decrease) in cash and cash equivalents	459		(614)
Cash and cash equivalents at beginning of period	803		2,212	
Cash and cash equivalents at end of period	\$1,262		\$1,598	
Supplemental disclosures of non-cash investing and financing cash flow information:				
Issuance of common stock for accounts payable	\$38		\$237	
Unrealized loss on marketable securities	\$—		\$(93)
Supplemental disclosure of cash flow information:				
Cash paid for interest expense and capitalized construction interest	\$(9)	\$(144)

See accompanying notes to consolidated financial statements.

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

Note 1: Basis Of Presentation

The consolidated financial statements include the financial statements of Hemispherx Biopharma, Inc. and its wholly-owned subsidiaries. The Company has three domestic subsidiaries: BioPro Corp., BioAegean Corp. and Core Biotech Corp., all of which are incorporated in Delaware and are dormant. The Company's foreign subsidiary, Hemispherx Biopharma Europe N.V./S.A., established in Belgium in 1998, has minimal activity. All significant intercompany balances and transactions have been eliminated in consolidation. Certain items in these financial statements have been reclassified to conform to the current year presentation.

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

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

These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2013 and 2012, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Note 2: Net Loss Per Share

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares, consisting of stock options and warrants which amounted to 58,129,967 and 38,421,415 shares for the nine months ended September 30, 2014 and 2013, respectively, are excluded from the calculation of diluted net loss per share since their effect is anti-dilutive.

Note 3: Equity-Based Compensation

The fair value of each option and equity warrant award is estimated on the date of grant using a Black-Scholes-Merton option pricing valuation model. Expected volatility is based on the historical volatility of the price of the Company's stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option and equity warrant. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. There were 955,000 options or equity warrants granted in the nine months ended September 30, 2014. The fair values of the options and equity warrants granted in the nine months ended September 30, 2014 and 2013, were estimated based on the following weighted average assumptions:

	Nine Months Ended September 30,	
	2014	2013
Risk-free interest rate	1.66% - 1.72%	0.14% - 1.40%
Expected dividend yield	—	—
Expected lives	5 years	1 year to 5 years
Expected volatility	88.33% - 92.63%	89.73% - 118.22%
Weighted average grant date fair value for options and equity warrants issued	\$0.22 per option/warrant for 955,000	\$0.14 per option/warrant for 3,870,000

options/warrants

options/warrants

Stock option for employees' activity during the nine months ended September 30, 2014 is as follows:

Stock option activity for employees:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding January 1, 2014	10,611,480	\$1.73	4.92	\$—
Granted	905,000	0.36	9.67	—
Forfeited	(367,000)	1.42	4.22	—
Outstanding September 30, 2014	11,149,480	\$1.63	4.61	\$—
Vested and expected to vest September 30, 2014	11,149,480	\$1.63	4.61	\$—
Exercisable September 30, 2014	10,541,980	\$1.69	4.20	\$—

905,000 options to purchase shares were granted to employees during the nine months ended September 30, 2014.

Unvested stock option activity for employees:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding January 1, 2014	525,000	\$0.29	8.38	\$—
Granted	905,000	0.36	9.67	—
Vested	(822,500)	0.30	9.14	—
Forfeited	—	—	—	—
Outstanding September 30, 2014	607,500	\$0.37	8.63	\$—

Stock option activity for non-employees:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding January 1, 2014	4,128,432	\$1.48	5.01	\$—
Granted	50,000	2.60	9.17	—
Exercised	—	—	—	—
Forfeited	(368,428)	2.80	1.93	—
Outstanding September 30, 2014	3,810,004	\$1.37	4.64	\$—
Vested and expected to vest September 30, 2014	3,810,004	\$1.37	4.64	\$—
Exercisable September 30, 2014	3,743,337	\$1.58	4.44	\$—

50,000 options to purchase shares were granted to non-employees during the nine months ended September 30, 2014.

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding January 1, 2014	470,833	\$0.25	9.61	\$—
Options granted	50,000	2.60	9.17	—
Options vested	(454,166)	0.28	8.86	—
Options forfeited	—	—	—	—
Outstanding September 30, 2014	66,667	\$1.84	9.09	\$—

The impact on the Company's results of operations of recording equity-based compensation for the nine months ended September 30, 2014 and 2013 was to increase general and administrative expenses by approximately \$260,000 and \$292,000, respectively. There was no impact on basic and fully diluted earnings per share for the nine months ended September 30, 2014 and 2013.

As of September 30, 2014 and 2013, respectively, there was \$301,000 and \$492,000 of unrecognized equity-based compensation cost related to options granted under the Equity Incentive Plan.

Note 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)	
	September 30, 2014	December 31, 2013
Inventory work-in-process, January 1	\$—	\$453
Production	—	5
Spoilage	—	(458)
Inventory work-in-process, end of period	\$—	\$—

In April 2012, FDA reviewers raised certain questions about the status of our existing lots of older Work-In-Process Alferon® materials and Alferon® Active Pharmaceutical Ingredient ("API"), which would need to be released by the FDA before those materials could be used in commercial product. After conducting all of the appropriate tests on samples of the inventory during 2013, the Company concluded that it could not alleviate certain questions the FDA had about the older Work-In-Process Alferon N Injection®. Accordingly, these lots were not be submitted to the FDA to request release for commercial sale and their remaining dollar value was written-off in 2013.

Note 5: Marketable Securities

Marketable securities consist of equity securities. As of September 30, 2014, it was determined that none of the marketable securities had other-than-temporary impairments. At September 30, 2014, all securities were classified as available for sale investments and were measured as Level 1 instruments of the fair value measurements standard (see "Note 10: Fair Value").

Securities classified as available for sale consisted of:

September 30, 2014
(in thousands)

Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Short-Term Investments	Long Term Investments
Mutual Funds	\$16,283	\$—	\$(114	) \$16,169	\$16,169	\$—
Totals	\$16,283	\$—	\$(114	) \$16,169	\$16,169	\$—

December 31, 2013
(in thousands)

Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Short-Term Investments	Long Term Investments
Mutual Funds	\$17,505	\$115	\$(229	) \$17,391	\$17,391	\$—
Totals	\$17,505	\$115				