CEVA INC
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended: March 31, 2018

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 number: 000-49842

CEVA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**77-0556376** **(I.R.S. Employer** **Identification No.)**
1174 Castro Street, Suite 210, Mountain View, California **(Address of Principal Executive Offices)**	**94040** **(Zip Code)**

(650) 417-7900

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports 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 for 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 , smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one).

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period of complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 22,221,045 of common stock, $0.001 par value, as of May 2, 2018.

Table of Contents

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Quarterly Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they materialize or prove incorrect, could cause the results of CEVA to differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will, may, should, could, expect, suggest, believe, intend, plan, or other similar words. Forward-looking statements include the following:

- Our belief that the adoption of our signal processing platform and artificial intelligence processors outside of the cellular baseband market continues to progress;

- Our belief that we may benefit from the handset market transitioning from feature phones to LTE smartphones , if and when it occurs, particularly in emerging economies;

- Our belief that we may benefit from the base station chip ramp up in coming years, as a large customer of ours is forecasted to start ramping up production in the second half of 2018;

- Our belief that our Bluetooth and Wi-Fi IPs allow us to expand further into IoT applications and increase our overall addressable market which is expected to be 35 billion devices by 2020, as per ABI Research;

- Our belief that our proven track record in audio/voice processing and the growing market potential for voice assisted services offer an additional market opportunity for the company in voice enabled devices such as smartphones, headsets, earbuds, smart speakers, smart home and automotive;

- Our belief that our specialization and competitive edge in signal processing platforms for next generation long and short range wireless such as 5G, NB-IoT, 802.11ac and 802.11ax technologies, and the inherent low cost, power and performance balance of our designs, put us in a strong position to simultaneously capitalize on mass market adoption of such technologies and address multiple markets and product sectors;

- Our belief that our vision processing IPs, neural net software and the newly announced AI processor, offer additional growth potentials and value in both licensing and royalty revenues in segments such as smartphones, drones, surveillance, consumer cameras, automotive ADAS and industrial IoT applications;

Per ABI Research, cameras equipped with vision processing are expected to exceed 2.7 billion units by 2018;

Our belief that the market opportunity for AI at the edge is on top of our existing product lines and represents a new licensing and royalty driver for the company in the coming years;

Our belief that royalty revenue growth in the next few years for non-handset baseband applications will be a combination of higher unit shipments of Bluetooth and other connectivity products that bear lower ASPs, along with higher ASPs driven by base station and vision products;

Our belief that our licensing business is progressing well with strong interest, diverse customer base and a myriad of target markets;

Our anticipation that our cash and cash equivalents, short-term bank deposits and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months; and

Our belief that changes in interest rates within our investment portfolio will not have a material effect on our financial position on an annual or quarterly basis.

Table of Contents

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deem reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, those risks set forth in Part II Item 1A Risk Factors of this Form 10-Q.

This report contains market data prepared by third party research firm. Actual market results may differ from their projections.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	March 31, 2018 Unaudited	December 31, 2017 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,382	$ 21,739
Short term bank deposits	33,269	34,432
Marketable securities	85,212	82,664
Trade receivables	13,902	14,480
Accrued revenues	9,425	2,014
Prepaid expenses and other current assets	4,136	3,747
Total current assets	164,326	159,076
Long term bank deposits	45,967	44,518
Severance pay fund	9,086	8,910
Deferred tax assets	4,085	3,643
Property and equipment, net	6,805	6,926
Goodwill	46,612	46,612
Intangible assets, net	3,583	1,742
Investments in other company	1,806	1,806
Other long-term assets	4,272	3,579
Total long-term assets	122,216	117,736
Total assets	$ 286,542	$ 276,812
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables	$ 499	$ 392
Deferred revenues	4,973	4,399
Accrued expenses and other payables	4,113	3,927
Accrued payroll and related benefits	13,958	14,077
Total current liabilities	23,543	22,795

Long term liabilities:		
Accrued severance pay	9,784	9,347
Other long term liabilities	400	
Total long-term liabilities	10,184	9,347
Stockholders equity:		
Preferred Stock:		
$0.001 par value: 5,000,000 shares authorized; none issued and outstanding		
Common Stock:		
$0.001 par value: 60,000,000 shares authorized; 23,595,160 shares issued at March 31, 2018 (unaudited) and December 31, 2017. 22,220,608 and 22,064,007 shares outstanding at March 31, 2018 (unaudited) and December 31, 2017, respectively	22	22
Additional paid in-capital	217,923	217,417
Treasury stock at cost (1,374,552 and 1,531,153 shares of common stock at March 31, 2018 (unaudited) and December 31, 2017, respectively)	(24,146)	(26,056)
Accumulated other comprehensive loss	(1,188)	(586)
Retained earnings	60,204	53,873
Total stockholders equity	252,815	244,670
Total liabilities and stockholders equity	$ 286,542	$ 276,812

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

3

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

U.S. dollars in thousands, except per share data

	Three months ended March 31,	
	2018	**2017**
Revenues:		
Licensing and related revenue	$ 10,083	$ 9,535
Royalties	7,486	11,752
Total revenues	17,569	21,287
Cost of revenues	1,972	1,696
Gross profit	15,597	19,591
Operating expenses:		
Research and development, net	12,016	9,873
Sales and marketing	3,176	2,938
General and administrative	2,954	2,125
Amortization of intangible assets	359	309
Total operating expenses	18,505	15,245
Operating income (loss)	(2,908)	4,346
Financial income, net	927	571
Income (loss) before taxes on income	(1,981)	4,917
Income taxes	201	810
Net income (loss)	$ (2,182)	$ 4,107
Basic net income (loss) per share	$ (0.10)	$ 0.19
Diluted net income (loss) per share	$ (0.10)	$ 0.19
Weighted-average shares used to compute net income (loss) per share (in thousands):		
Basic	22,148	21,398
Diluted	22,148	22,187

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

4

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

U.S. dollars in thousands

	Three months ended March 31, 2018	Three months ended March 31, 2017
Net income (loss):	$ (2,182)	$ 4,107
Other comprehensive income (loss) before tax:		
Available-for-sale securities:		
Changes in unrealized losses	(680)	169
Reclassification adjustments for (gains) losses included in net income	(4)	38
Net change	(684)	207
Cash flow hedges:		
Changes in unrealized gains (losses)	(24)	182
Reclassification adjustments for (gains) losses included in net income	19	(146)
Net change	(5)	36
Other comprehensive income (loss) before tax	(689)	243
Income tax expense (benefit) related to components of other comprehensive income (loss)	(87)	35
Other comprehensive income (loss), net of taxes	(602)	208
Comprehensive income (loss)	$ (2,784)	$ 4,315

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

5

Table of Contents

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Three months ended March 31,	
	2018	**2017**
Cash flows from operating activities:		
Net income (loss)	$ (2,182)	$ 4,107
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	576	443
Amortization of intangible assets	359	309
Equity-based compensation	2,771	1,949
Realized (gain) loss, net on sale of available-for-sale marketable securities	(4)	38
Amortization of premiums on available-for-sale marketable securities	236	304
Unrealized foreign exchange)gain(loss	(73)	27
Changes in operating assets and liabilities:		
Trade receivables and accrued revenues	2,366	1,266
Prepaid expenses and other assets	(1,619)	(1,738)
Accrued interest on bank deposits	(326)	114
Deferred tax, net	(355)	(355)
Trade payables	102	(220)
Deferred revenues	574	25
Accrued expenses and other payables	(780)	(151)
Accrued payroll and related benefits	(129)	63
Accrued severance pay, net	267	108
Net cash provided by operating activities	1,783	6,289
Cash flows from investing activities:		
Purchase of property and equipment	(455)	(1,435)
Purchase and capitalization of intangible assets	(850)	
Investment in bank deposits	(1,286)	(21,000)
Proceeds from bank deposits	1,298	10,500
Investment in available-for-sale marketable securities	(9,505)	(10,696)
Proceeds from maturity of available-for-sale marketable securities	3,762	2,243
Proceeds from sale of available-for-sale marketable securities	2,279	5,931
Net cash used in investing activities	(4,757)	(14,457)
Cash flows from financing activities:		
Purchase of treasury stock	(1,459)	

Proceeds from exercise of stock-based awards	1,062	2,363
Net cash provided by (used in) financing activities	(397)	2,363
Effect of exchange rate changes on cash and cash equivalents	14	25
Decrease in cash and cash equivalents	(3,357)	(5,780)
Cash and cash equivalents at the beginning of the period	21,739	18,401
Cash and cash equivalents at the end of the period	$ 18,382	$ 12,621
Supplemental information of cash-flow activities:		
Cash paid during the period for:		
Income and withholding taxes, net of refunds	$ 1,355	$ 1,280
Non-cash transactions:		
Cumulative effect of adoption of new accounting standard	$ 8,555	$
Property and equipment purchases incurred but unpaid at period end	$	$ 29
Intangible assets purchases incurred but unpaid at period end	$ 1,350	$

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

NOTE 1: BUSINESS

The financial information in this quarterly report includes the results of CEVA, Inc. and its subsidiaries (the Company or CEVA).

CEVA licenses a family of signal processing platforms and artificial intelligence (AI) processors. These intellectual properties (IP) include programmable DSP cores and application-specific platforms for advanced imaging, computer vision, deep learning, sound, voice and audio processing, as well as long range wireless technologies for LTE/5G baseband processing in IoT, handsets and infrastructure, short range wireless platforms for Wi-Fi and Bluetooth, and a new family of self-contained AI processors.

CEVA s technologies are licensed to leading semiconductor and original equipment manufacturer (OEM) companies. These companies design, manufacture, market and sell application-specific integrated circuits (ASICs) and application-specific standard products (ASSPs) based on CEVA s technology to wireless, consumer electronics and automotive companies for incorporation into a wide variety of end products.

NOTE 2: BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The interim condensed consolidated financial statements have been prepared according to U.S Generally Accepted Accounting Principles (U.S. GAAP).

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2017, contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2018, have been applied consistently in these unaudited interim condensed consolidated financial statements, except for, during the first quarter of 2018, changes associated with recent accounting standards for revenue recognition and financial instruments as detailed below.

Changes in accounting policies as a result of adopting Topic 606 and nature of goods

Effective as of January 1, 2018, the Company has followed the provisions of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606). The guidance provides a unified model to determine how revenue is recognized. See Note 3 for further details.

The following is a description of principal activities from which the Company generates revenue. Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

The Company enters into contracts that can include various combinations of products and services, as detailed below, which are generally capable of being distinct, and accounted for as separate performance obligations.

The Company generates its revenues from (1) licensing intellectual properties, which in certain circumstances are modified for customer-specific requirements, (2) royalty revenues, and (3) other revenues, which include revenues from support, training and sale of development systems.

The Company accounts for its IP license revenues and related services, which provide the Company s customers with rights to use the Company s IP, in accordance with ASC 606. A license may be perpetual or time limited in its application. In accordance with ASC 606, the Company will continue to recognize revenue from IP license at the time of delivery when the customer accepts control of the IP, as the IP is functional without professional services, updates and technical support. The Company has concluded that its IP license is distinct as the customer can benefit from the software on its own.

Most of the Company s contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately, if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices of IP license are typically estimated using the residual approach. Standalone selling prices of services are typically estimated based on observable transactions when these services are sold on a standalone basis.

When contracts involve a significant financing component, the Company adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provide the customer with a significant benefit of financing, unless the financing period is under one year and only after the products or services were provided, which is a practical expediency permitted under ASC 606.

Revenues from contracts that involve significant customization of the Company s IP to customer-specific specifications are performance obligations the Company generally accounts for as performance obligations satisfied over time. The underlying deliverable is owned and controlled by the customer, and does not create an asset with an alternative use to the Company. The Company recognizes revenue on such contracts using cost based input methods, which recognize revenue and gross profit as work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.

Revenues that are derived from the sale of a licensee s products that incorporate the Company s IP are classified as royalty revenues. Royalty revenues are recognized during the quarter in which the sale of the product incorporating the Company s IP occurs. Royalties are calculated either as a percentage of the revenues received by the Company s licensees on sales of products incorporating the Company s IP or on a per unit basis, as specified in the agreements with the licensees. The Company receives the actual sales data from its customers after the quarter ends and accounts for it as accrued revenue. When the Company does not receive actual sales data from the customer prior to the finalization of its financial statements, royalty revenues are recognized based on the Company s estimation of the customers sales during the quarter.

In addition to license fees, contracts with customers generally contain an agreement to provide for training and post contract support, which consists of telephone or e-mail support, correction of errors (bug fixing) and unspecified updates and upgrades. Fees for post contract support, which takes place after delivery to the customer, are specified in the contract and are generally mandatory for the first year. After the mandatory period, the customer may extend the support agreement on similar terms on an annual basis. The Company considers the post contract support performance obligation as a distinct performance obligation that is satisfied over time, and as such, it recognizes revenue for post contract support on a straight-line basis over the period for which technical support is contractually agreed to be provided to the licensee, typically 12 months. Training services are considered performance obligations satisfied over-time, and revenues from training services are recognized as the training is performed.

Revenues from the sale of development systems are recognized when control of the promised goods or services are transferred to the customers.

Deferred revenues, which represent a contract liability, include unearned amounts received under license agreements, unearned technical support and amounts paid by customers not yet recognized as revenues.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

The Company capitalizes sales commission as costs of obtaining a contract when they are incremental and, if they are expected to be recovered, amortized consistently with the pattern of transfer of the good or service to which the asset relates. If the expected amortization period is one year or less, the commission fee is expensed when incurred.

Changes in accounting policies as a result of adopting ASU No. 2016-01, Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities

Beginning January 1, 2018, the Company has followed the provisions of Accounting Standards Update (ASU) No. 2016-01, Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities , which requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The investment is reviewed periodically to determine if there are changes resulting from observable price changes, and adjustments are recorded as necessary. During the first quarter of 2018, no adjustments were recorded as a result of changes in the observable price.

Reclassification

Certain amounts in the prior years financial statements have been reclassified to conform to the current year s presentation. These amounts are associated with trade receivables and accrued revenues. Such reclassifications have no effect on stockholders equity or net income as previously reported.

Use of Estimates

The preparation of the interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the interim condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: REVENUE RECOGNITION

In May 2014, the Financial Accounting Standards Board (FASB) issued new guidance related to revenue recognition, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. ASC 606 requires a company to recognize revenue as control of goods or services transfers to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the prior guidance. The Company adopted ASC 606 on January 1, 2018 for all open contracts at the date of initial application, and applied the standard using modified retrospective approach, with the cumulative effect of applying ASC 606 recognized as an adjustment to the opening retained earnings balance. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded a net increase to opening retained earnings of $8,555 as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to revenues for the three months ended March 31, 2018 was a decrease of $1,963 as a result of adopting ASC 606.

In respect to the Company s licensing business, under ASC 606, certain deliverables may now be considered as distinct performance obligations separate from other performance obligations, and will be measured using the relative standalone selling price basis, and recognized as revenue accordingly. Nevertheless, the adoption of ASC 606 for licensing and related revenues did not have a significant impact on the Company s financial statements. In respect to the Company s royalty business, ASC 606 did have a significant impact. Under the accounting standards in effect during prior periods, the Company recognized sales-based royalties as revenues during the quarter which such royalties were reported by licensees, which reflected the licensees prior quarter sales and when all other revenue recognition criteria were met. Under ASC 606, the Company is required to estimate and recognize sales-based royalties during the period which the associated sales occur. Accordingly, the Company has an increase in accrued revenues of $6,611 in the statement of financial position.

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

Under ASC 606, an entity recognizes revenue when or as it satisfies a performance obligation by transferring IP license or services to the customer, either at a point in time or over time. The Company recognizes most of its revenues at a point in time upon delivery of its IPs. The Company recognizes revenue over time on significant license customization contracts that are covered by contract accounting standards using cost inputs to measure progress toward completion of its performance obligations, which is similar to the method prior to the adoption of ASC 606.

The following table includes estimated revenue expected to be recognized in future periods related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The estimated revenues do not include amounts of royalties or unexercised contract renewals:

	Remainder of 2018	2019	2020	2021
License and related revenues	$ 7,340	$ 5,067	$ 3,000	$ 1,500

In connection with the adoption of ASC 606, the Company is required to capitalize incremental costs that are related to sales during the period, consisting primarily of sales commissions earned when contracts are signed. As of January 1, 2018, the date the Company adopted ASC 606, the Company capitalized $239 in contract acquisition costs related to contracts that were not completed. For contracts that have a duration of less than one year, the Company follows ASC 606 s practical expediency, and expenses these costs when incurred; for contracts with life exceeding one year, the Company records these costs in proportion to each completed contract performance obligation. For the three months ended March 31, 2018, the amount of amortization was $11 and there was no impairment loss in relation to costs capitalized.

Disaggregation of revenue:

The following table provides information about disaggregated revenue by primary geographical market, major product line and timing of revenue recognition (in thousands):

	Three months ended March 31, 2018 (unaudited)		
	Licensing and related revenues	Royalties	Total
Primary geographical markets			
United States	$ 1,360	$ 347	$ 1,707
Europe and Middle East	1,338	1,115	2,453
Asia Pacific	7,385	6,024	13,409

Total	$ 10,083	$ 7,486	$ 17,569
Major product/service lines			
DSP products (DSP cores and platforms)	$ 7,375	$ 6,878	$ 14,253
Connectivity products (Bluetooth, Wi-Fi and SATA/SAS)	2,708	608	3,316
Total	$ 10,083	$ 7,486	$ 17,569
Timing of revenue recognition			
Products transferred at a point in time	$ 7,524	$ 7,486	$ 15,010
Products and services transferred over time	2,559		2,559
Total	$ 10,083	$ 7,486	$ 17,569

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

Contract balances:

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers (in thousands):

	March 31, 2018 (unaudited)
Trade receivables	$ 13,902
Accrued revenues (short-term contract assets)	2,455
Accrued revenues (royalties)	6,970
Deferred revenues (short-term contract liabilities)	4,973

The Company receives payments from customers based upon contractual payment schedules; trade receivable are recorded when the right to consideration becomes unconditional, and an invoice is issued to the customer. Contract assets include amounts related to the Company s contractual right to consideration for completed performance objectives not yet invoiced. Accrued revenues associated with royalties are recorded as the Company recognizes revenues from royalties earned during the quarter, not yet invoiced, either by actual sales data received from the customers, or, when applicable, by estimation. Contract liabilities (deferred revenue) include payments received in advance of performance under the contract, and are realized with the associated revenue recognized under the contract.

During the three months ended March 31, 2018, the Company recognized $1,295 that was included in deferred revenues (short-term contract liability) balance at January 1, 2018.

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

In accordance with ASC 606, the disclosure of the impact of adoption to the Company s condensed consolidated statements of income and balance sheets was as follows:

	Three months ended March 31, 2018 (unaudited)		
	As reported	Balance without adopting ASC 606	Effect of change higher/(lower)
Revenues:			
Licensing and related revenue	$ 10,083	$ 9,564	$ 519
Royalties	7,486	9,968	(2,482)
Total revenues	17,569	19,532	(1,963)
Cost of revenues	1,972	1,972	
Gross profit	15,597	17,560	(1,963)
Operating expenses:			
Sales and marketing	3,176	3,166	10
Other operating expenses	15,329	15,329	
Total operating expenses	18,505	18,495	10
Operating income	(2,908)	(935)	(1,973)
Financial income, net	927	927	
Income (loss) before taxes on income	(1,981)	(8)	(1,973)
Income taxes	201	464	(263)
Net income (loss)	$ (2,182)	$ (472)	$ (1,710)
Basic net income per share	$ (0.10)	$ (0.02)	$ (0.08)
Diluted net income per share	$ (0.10)	$ (0.02)	$ (0.08)

March 31, 2018 (unaudited)

	As reported	Balance without adopting ASC 606	Effect of change higher/(lower)
Assets:			
Trade receivables	$ 13,902	$ 13,856	$ 46
Accrued revenues	$ 9,425	$ 2,314	$ 7,111
Prepaid expenses and other current assets	$ 4,136	$ 4,531	$ (395)
Liabilities:			
Deferred revenues	$ 4,973	$ 5,056	$ (83)
Stockholders Equity:			
Retained earnings	$ 60,204	$ 53,359	$ 6,845

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

Practical Expediency and Exemptions:

The Company generally expenses sales commissions when incurred because the amortization period would have been less than one year. The Company records these costs within sales and marketing expenses on the Company s interim condensed consolidated statements of income.

The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

NOTE 4: MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities:

	March 31, 2018 (Unaudited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale - matures within one year:				
Corporate bonds	$ 9,016	$	$ (20)	$ 8,996
	9,016		(20)	8,996
Available-for-sale - matures after one year through five years:				
Certificate of deposits	747			747
Government bonds	501		(10)	491
Corporate bonds	76,310	37	(1,369)	74,978
	77,558	37	(1,379)	76,216
Total	$ 86,574	$ 37	$ (1,399)	$ 85,212

	December 31, 2017 (Audited)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale - matures within one year:				
Corporate bonds	$ 11,803	$ 3	$ (12)	$ 11,794
	11,803	3	(12)	11,794

Available-for-sale - matures after one year through five years:								
Certificate of deposits		747						747
Government bonds		501				(6)		495
Corporate bonds		70,291		14		(677)		69,628
		71,539		14		(683)		70,870
Total	$	83,342	$	17	$	(695)	$	82,664

13

Table of Contents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(in thousands, except share data)

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2018 and December 31, 2017, and the length of time that those investments have been in a continuous loss position:

	Less than 12 months		12 months or greater	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
As of March 31, 2018 (unaudited)	$ 49,387	$ (883)	$ 22,135	$ (516)
As of December 31, 2017	$ 49,921	$ (411)	$ 22,960	$ (284)

As of March 31, 2018 and December 31, 2017, management believes the impairments are not other than temporary and therefore the impairment losses were recorded in accumulated other comprehensive income (loss).

The following table presents gross realized gains and losses from sale of available-for-sale marketable securities:

	Three months ended March 31,	
	2018 (unaudited)	2017 (unaudited)
Gross realized gains from sale of available-for-sale marketable securities	$ 4	$
Gross realized losses from sale of available-for-sale marketable securities	$	$ (38)

NOTE 5: FAIR VALUE MEASUREMENT

FASB ASC No. 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value. Fair value is an exit price, representing the amount that would be received for selling an asset or paid for the transfer of a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level I Unadjusted quoted prices in active markets that are accessible on the measurement date for identical, unrestricted assets or liabilities;

Level II Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level III	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company measures its marketable securities and foreign currency derivative contracts at fair value. Marketable securities and foreign currency derivative contracts are classified within Level II as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Summary Compensation Table - 2007

Name and Principal Position	Salary	Bonus	Stock Award	Option Award (1)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
W. A. Carter, CEO	$ 637,496	$ 166,156	-	$ 1,688,079	-	-	$ 123,063(2)	$ 2,664,794
A. Bonelli, COO	350,000	87,500	-	59,684	-	-	33,375(3)	530,504
R. E. Peterson, CFO	259,164	64,791	-	153,055	-	-	-	477,010
D. Strayer, Medical Director	240,348	50,347	-	79,810	-	-	-	370,505
C. Smith, VP of MFG.	147,695	-	-	34,235	-	-	30,088(4)	212,018
K. Ferencz-Biro, VP of Reg. Affairs	145,000	-	-	11,744	-	-	13,999(5)	170,743
W. Springate, VP of Operations	150,000	37,500	-	36,253	-	-	13,429(5)	237,182
R. Lander, VP of Qual. Assurance	178,000	-	-	11,744	-	-	9,649(6)	199,393

Notes:

(1) Based on Black Scholes pricing model of valuing options. Total fair of options granted to Officers in 2007 was $2,241,028.

(2) Consists of a) Life Insurance premiums totaling $63,627; b) 401-K matching funds of $18,833; c) Healthcare premiums of $28,586; and d) Company car expenses of $12,017.

(3) Healthcare premiums of $9,649, car allowance expense of $9,276, and life insurance premiums totaling $14,400.

(4) Consists of Healthcare premiums of $21,266, and 401-K matching funds of $8,862.

(5) Healthcare premiums and 401-K matching funds

(6) Healthcare premiums

17

2007 Stock Option Grants to Executive Officers

The following table provides additional information about option awards granted to our Named Executive Officers during the year ended December 31, 2007. The compensation plan under which the grants in the following tables were made are described in the Compensation Discussion and Analysis section headed "Long-Term Equity Incentive Awards".

Name	Grant Date	No. of Options	Exercise Price per Share	Expiration Date	Closing Price on Grant	Grant Date Fair Value of Option (2)
W.A. Carter, CEO	9/10/07	1,000,000(1)	$ 2.00	9/9/17	1.24	674,063
	10/1/07	1,400,000(1)	3.50	9/30/17	1.60	1,014,016
A. Bonelli, COO	2/22/07	50,000	2.07	2/27/17	1.88	59,684
R.E. Peterson, CFO	1/23/07	13,750(1)	2.37	1/23/17	2.10	18,242
	9/10/07	200,000(1)	2.00	9/9/17	1.24	134,813
D. Strayer,	1/23/07	20,000(1)	2.37	1/23/17	2.10	26,534
Medical Director	9/10/07	50,000(1)	2.00	9/9/17	1.24	33,703
	12/6/07	25,000	1.30	12/6/17	1.30	19,573
C. Smith,	1/23/07	6,791(1)	2.37	1/23/17	2.10	9,010
VP of MFG.	9/10/07	20,000(1)	2.00	9/9/17	1.24	13,481
	12/6/07	15,000	1.30	12/6/17	1.30	11,744
W. Springate,	5/1/07	20,000	1.78	4/30/17	1.63	20,595
VP of Operations	12/6/07	20,000	1.30	12/6/17	1.30	15,658
K. Ferencz-Biro, VP of Reg. Affairs	12/6/07	15,000	1.30	12/6/17	1.30	11,744
R. Lander, VP of Qual. Assurance	12/6/07	15,000	1.30	12/6/17	1.30	11,744

1) Renewal of previously issued options that expired unexercised.

2) These amounts shown represent the approximate amount we recognize for financial statement reporting purposes in fiscal year 2007 for the fair value of equity awards granted to the named executive officers. As a result, these amounts do not reflect the amount of compensation actually received by the named executive officer during the fiscal year. For a description of the assumptions used in calculating the fair value of equity awards under SFAS No. 123(R), see Note 2(m) of our financial statements.

Outstanding Equity Awards at Year End - 2007

	Option/Warrants Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Unit That Have Not Vested	Equity Incentive Plan Awards Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
W.A. Carter, CEO	1,450,000	0	0	$ 2.20	9/8/08	-	-	-	-
	1,000,000	0	0	2.00	9/9/17	-	-	-	-
	190,000	0	0	4.00	1/1/08	-	-	-	-
	73,728	0	0	2.71	12/31/10	-	-	-	-
	10,000	0	0	4.03	1/3/11	-	-	-	-
	167,000	0	0	2.60	9/7/14	-	-	-	-
	153,000	0	0	2.60	12/7/14	-	-	-	-
	100,000	0	0	1.75	4/26/15	-	-	-	-
	465,000	0	0	1.86	6/30/15	-	-	-	-
	70,000	0	0	2.87	12/9/15	-	-	-	-
	300,000	0	0	2.38	1/1/16	-	-	-	-
	10,000	0	0	2.61	12/9/15	-	-	-	-
	376,650	0	0	3.78	2/22/16	-	-	-	-
	1,400,000	0	0	3.50	9/30/17	-	-	-	-
A. Bonelli, COO	100,000	0	0	2.11	11/26/16	-	-	-	-
	50,000	0	0	2.07	2/27/17	-	-	-	-
R. Peterson, CFO	200,000	0	0	2.00	9/9/17	-	-	-	-
	50,000	0	0	3.44	6/22/14	-	-	-	-
	13,824	0	0	2.60	9/7/14	-	-	-	-
	55,000	0	0	1.75	4/26/15	-	-	-	-
	10,000	0	0	2.61	12/8/15	-	-	-	-
	50,000	0	0	3.85	2/28/16	-	-	-	-
	100,000	0	0	3.48	4/14/16	-	-	-	-
	30,000	0	0	3.55	4/30/16	-	-	-	-
	13,750	0	0	2.37	1/22/17	-	-	-	-
	10,000	0	0	4.03	1/3/11	-	-	-	-
D. Strayer, Medical Director	50,000	0	0	2.00	9/9/17	-	-	-	-
	50,000	0	0	4.00	2/28/08	-	-	-	-
	10,000	0	0	4.03	1/3/11	-	-	-	-
	20,000	0	0	3.50	2/23/07	-	-	-	-
	10,000	0	0	1.90	12/14/14	-	-	-	-

	10,000	0	0	2.61	12/8/15	-	-	-	-
	10,000	5,000	0	2.20	11/20/16	-	-	-	-
	25,000	0	0	1.30	12/6/17	-	-	-	-
C. Smith, VP of MFG	20,000	0	0	2.00	9/9/17	-	-	-	-
	5,000	0	0	4.00	6/7/08	-	-	-	-
	10,000	0	0	4.03	1/3/11	-	-	-	-
	10,000	0	0	2.61	12/8/15	-	-	-	-
	6,791	0	0	2.37	1/23/17	-	-	-	-
	10,000	0	0	1.90	12/7/14	-	-	-	-
	5,000	2,500	0	2.20	11/20/16	-	-	-	-
W. Springate, VP of Operations	1,812	0	0	1.90	12/7/14	-	-	-	-
	2,088	0	0	2.61	12/8/05	-	-	-	-
	5,000	0	0	2.20	11/20/16	-	-	-	-
	20,200	0	0	1.78	4/30/17	-	-	-	-
	6,067	13,333	0	1.30	12/6/17	-	-	-	-
R. Lander, VP of Quality Assurance	5,000	10,000	0	1.30	12/6/17	-	-	-	-
K. Ferencz-Biro, VP of Reg. Affairs	5,000	10,000	0	1.30	12/6/17	-	-	-	-

Options Exercised / Stock Vested - 2007

	Option Awards		Stock Awards	
Name (a)	**Number of Shares Acquired on Exercise (#) (b)**	**Value Realized on Exercise ($) (c)**	**Number of Shares Acquired on Vesting (#) (d)**	**Value of Realized on Vesting ($) (e)**
W.A. Carter, CEO	none			
A. Bonelli, COO	none			
R. Peterson, CFO	none			
D. Strayer, Medical Director	none			
C. Smith, VP MFG.	none			
W. Springate, VP of Operations	none			
R. Lander, VP of Qual. Assurance	none			
K. Ferencz-Biro, VP of Reg. Affairs	none			

Compensation Committee Interlocks and Insider Participation

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

COMPENSATION COMMITTEE REPORT

Our Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Annual Report with management. Based on our Committee's review of and the discussions with management with respect to the Compensation Discussion and Analysis, our Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the SEC.

COMPENSATION COMMITTEE
William Mitchell, M.D., Committee Chairman
Dr. Iraj E. Kiani
Richard Piani

The foregoing Compensation Committee report shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under these acts, except to the extent we incorporate by reference into such filings.

Director Compensation - 2007

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensa-tion ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensat-ion ($)	Total ($)
R. (3) Etheridge, Director, General Counsel	100,000	50,000	67,406	0	0	117,179(1)	334,585
W. Mitchell, Director	100,000	50,000	67,406	0	0	0	217,406
R. Piani, Director	100,000	50,000	67,406	0	0	0	217,406
I. Kiani, Director	100,000	50,000	0	0	0	0	150,000

(1) General Counsel fees as per Engagement Agreement.

(2) The total Fair Value of Stock Options granted in 2007 to Directors was $202,218. The options were the renewal of previously issued options that expired unexercised.

(3) Will not stand for re-election to the Board at the 2008 Annual Stockholders' Meeting.

Compliance With Internal Revenue Code Section 162(m).

One of the factors the Compensation Committee considers in connection with compensation matters is the anticipated tax treatment to Hemispherx and to the executives of the compensation arrangements. The deductibility of certain types of compensation depends upon the timing of an executive's vesting in, or exercise of, previously granted rights. Moreover, interpretation of, and changes in, the tax laws and other factors beyond the Compensation Committee's control also affect the deductibility of compensation. Accordingly, the Compensation Committee will not necessarily limit executive compensation to that deductible under Section 162(m) of the Code. The Compensation Committee will consider various alternatives to preserving the deductibility of compensation payments and benefits to the extent consistent with its other compensation objectives.

21

PRINCIPAL STOCKHOLDERS

The following table sets forth as of June 30, 2008, 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, director nominees and the Named Executives; and
- all of our officers and directors as a group.

As of June 30, 2008, 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.	6,241,868(1)	7.8%
Ransom W. Etheridge 2610 Potters Rd. Virginia Beach, VA 23452	721,296(2)	*
Robert E. Peterson	540,574(3)	*
Richard C. Piani 97 Rue Jeans-Jaures Levaillois-Perret France 92300	549,346(4)	*
Anthony Bonelli 783 Jersey Avenue New Brunswick, NJ 08901	152,500(5)	*
Tom Equels 2601 South Bay Shore Drive Suite 600 Miami, FL 33133	213,367	*
William M. Mitchell, M.D. Vanderbilt University Department of Pathology Medical Center North 21st and Garland Nashville, TN 37232	476,618(6)	*
David R. Strayer, M.D.	200,746(7)	*
Carol A. Smith, Ph.D.	69,291(8)	*
Iraj-Eqhbal Kiani, Ph.D. Orange County Immune Institute 18800 Delaware Street Huntingdon Beach, CA 92648	183,874(9)	*
W. Springate	48,900(10)	*
R. Lander, Ph.D.	15,000(11)	*
K. Ferencz-Biro, Ph.D.	15,000(11)	*
All directors and executive officers as a group (11 persons)	9,428,380	11.5%

* Less than 1%

22

(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) options issued in 2007 to purchase 1,000,000 shares of common stock exercisable at $2.00 per share expiring on September 9, 2017, these options replaced previously issued options that expired unexercised on August 13, 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 June 30, 2015; 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; (x) 300,000 options issued in 2006 to purchase common stock at $2.38 per share and expiring on January 1, 2016; and (xi) 476,490 shares of Common Stock. Also includes 1,663,728 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 (a) warrants issued in 2008 to purchase 190,000 shares of common stock at $4.00 per share expiring on February 17, 2018, these options replace previously issued warrants that expired unexercised on February 18, 2007, (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)options issued in 2007 to purchase 1,400,000 shares of common stock at $3.50 per share expiring on September 30, 2017. These options replaced previously issued options that expired unexercised on September 30, 2007.

(2) Includes shares issuable upon exercise of (i) 20,000 options issued in to purchase common stock at $4.00 per share expiring on February 17, 2018, these options replace previously issued warrants that expired unexercised on February 18, 2007; (ii) 100,000 warrants issued in 2002 exercisable $2.00 per share expiring on August 17, 2017, these options replaced previously issued options that expired unexercised 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; (and (vi) 201,296 shares of common stock of which 40,900 are subject to security interest. Also includes 200,000 stock options originally granted to Ransom Etheridge in 2003 and 50,000 stock options originally granted to Ransom Etheridge in 2006, all of which were subsequently transferred to relatives and family trusts. 200,000 of these stock options are exercisable at $2.75 per share and expire on December 4, 2013. 37,500 of these options were transferred to Julianne Inglima; 37,500 of these options were transferred to Thomas Inglima; 37,500 of these options were transferred to R. Etheridge-BMI Trust; 37,500 options were transferred to R. Etheridge-TCI Trust and 50,000 of these options were transferred to the Etheridge Family Trust. 50,000 of these stock options are exercisable at $3.86 per share and expire on February 24, 2016. 12,500 of these shares were transferred to Julianne Inglima; 12,500 of these options were transferred to Thomas Inglima; 12,500 of these options were transferred to R. Etheridge - BMI Trust; and 12,500 of these options were transferred to R. Etheridge-TCI Trust. Julianne and Thomas are Mr. Etheridge's daughter and son-in-law.

(3) Includes shares issuable upon exercise of (i) replacement options issued in 2007 to purchase 13,750 shares of common stock at $2.37 per share and expiring on January 22, 2017; (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) options issued in 2005 to purchase 10,000 shares of Common Stock at $2.61 per share expiring December 8, 2015; and (iv) 8,000 shares of Common Stock. Also includes 498,824 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 and to Mr. Peterson's spouse, Leslie Peterson. The trust securities include options issued in 2007 to purchase 200,000 shares at $2.00 per share expiring September 17, 2017, these options replaced previously issued options that expired unexercised on August 13, 2007; options issued in 2006 to purchase 50,000 shares of common stock exercisable at $3.85 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. 55,000 options to purchase common stock at $1.75 per share expiring on April 16, 2015 were transferred to Mrs. Peterson of which Mr. Peterson is still considered the beneficial owner.

(4) Includes shares issuable upon exercise of (i) 20,000 warrants issued in 1998 to purchase common stock at $4.00 per share expiring on February 17, 2018, these options replace previously issued warrants that expired unexercised on February 18, 2007; (ii) 100,000 warrants issued in 2007 exercisable at $2.00 per share expiring on September 17, 2017, these options replaced previously issued options that expired unexercised 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) 178,838 shares of common stock owned by Mr. Piani; vii) 40,900 shares of common stock owned jointly by Mr. and Mrs. Piani; and (viii) and 5,000 shares of common stock owned by Mrs. Piani.

(5) Consists of (i) 100,000 options exercisable at $2.11 per share expiring November 27, 2016 (ii) 50,000 options exercisable at $2.08 per share expiring February 26, 2017 and (iii) 2,500 shares of common stock.

(6) Includes shares issuable upon exercise of (i) options issued in to purchase 12,000 shares of common stock at $6.00 per share; (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) 164,618 shares of common stock.

(7) (i) stock options issued in 2007 to purchase 20,000 shares of common stock at $2.37 per share expiring on February 22, 2017; (ii) warrants issued in 1998 to purchase 50,000 shares of common stock exercisable at $4.00 per share expiring on February 17, 2018. These options replace previously issued warrants that expired unexercised on February 18, 2007; (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 2007 to purchase 50,000 shares of common stock exercisable at $2.00 per share expiring on September 17, 2017, these options replaced previously issued options that expired unexercised 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; (vii) stock options to purchase 15,000 shares of common stock at $2.20 per share expiring November 20, 2016; (viii)stock options issued in 2007 to purchase 25,000 shares of common stock at $1.30 per share expiring December 6, 2017 and (ix) 10,746 shares of common stock.

(8) 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 options issued in 2007 exercisable at $2.00 per share expiring in September 17, 2017, these options replaced previously issued options that expired unexercised on August 13, 2007; (iii) 6,791 stock options issued in 1997 exercisable at $2.37 expiring January 22, 2017; (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; (vi) 10,000 stock options issued in 2005 to purchase Common Stock at $2.61 per share expiring December 8, 2015 and (vii) 7,500 stock options issued in 1996 to purchase common stock at $2.20 per share expiring November 20, 2016.

(9) 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) 106,874 shares of common stock.

(10) Consists of (i) stock options to acquire 1,812 shares of common stock at $1.90 per share expiring December 7, 2014; (ii) stock options to acquire 2,088 shares of common stock at $2.61 per share expiring December 8, 2015; (iii) 5,000 stock options at $2.20 per share expiring November 20, 2016; (iv) stock options to acquire 20,000 shares of common stock at $1.78 per share expiring April 30, 2017 and (v) stock options to acquire 20,000 shares at $1.30 per share expiring December 6, 2017.

(11) Consists of stock options to purchase 15,000 shares of common stock at $1.30 per share expiring on December 6, 2017.

PROPOSALS TO STOCKHOLDERS

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Each nominee to the Board of Directors will serve until the next annual meeting of stockholders, or until his earlier resignation, removal from office, death or incapacity.

Unless otherwise specified, the enclosed proxy will be voted in favor of the election of William A. Carter, Richard C. Piani, Tom Equels, William M. Mitchell and Iraj-Eqhbal Kiani. Information is furnished below with respect to all nominees.

Set forth below is the biographical information of the nominees and Directors of Hemispherx:

WILLIAM A. CARTER, M.D., 70, the co-inventor of Ampligen, joined Hemispherx in 1978, and has served as: (a) Hemispherx's Chief Scientific Officer since May 1989; (b) the Chairman of Hemispherx's Board of Directors since January 1992; (c) Hemispherx's Chief Executive Officer since July 1993; (d) Hemispherx's President from April 1995 to February 2005; and (e) a director since 1987. From 1987 to 1988, Dr. Carter served as Hemispherx's 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 beta interferon product manufactured in the U.S. under his supervision. From 1985 to October 1988, Dr. Carter served as Hemispherx's 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 Noeplastic 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 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.

RICHARD C. PIANI, 81, has been a director of Hemispherx since May 1995. Mr. Piani was employed as a principal delegate for Industry to the City of Science and Industry, Paris, France, a scientific and educational complex, from 1985 through 2000. Mr. Piani provided consulting to Hemispherx in 1993, with respect to general business strategies for Hemispherx's 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.

THOMAS K. EQUELS, 56, is the President and Managing Director of the Equels Law Firm. Prior to that he was Managing Director of Holtzman Equels, P.A., also a law firm. His practice is devoted to complex litigation, with particular emphasis on civil racketeering, business torts and commercial matters. For more than 25 years Tom has represented national and state governments, banks, insurance companies, aviation companies, construction and development companies. He has extensive experience in international matters and has served as counsel for the Republic of Panama, Chinese National Petroleum Corp., and has worked extensively in Europe as well as in South America, Asia and Africa. Mr. Equels received his law degree from Florida State University. He has served as litigation counsel for Hemispherx Biopharma in a number of complex cases over the past ten years.

WILLIAM M. MITCHELL, M.D., 72, has been a director since July 1998. Dr. Mitchell is a Professor of Pathology at Vanderbilt University School of Medicine. Dr. Mitchell earned an 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 a director of Hemispherx from 1987 to 1989.

IRAJ-EQHBAL KIANI, M.B.A., PH.D., 61, was appointed to the Board of Directors on May 1, 2002. Dr. Kiani is a citizen of England and resides in Newport, California. As a native of Iran, Dr. Kiani served in various local government positions including the Governor of Yasoi, Capital of Boyerahmad, 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 an international planning and logistic specialist. Dr. Kiani received his Ph.D. degree from the University of Warwick in England.

THE BOARD OF DIRECTORS DEEMS PROPOSAL NO. 1 TO BE IN THE BEST INTERESTS OF HEMISPHERx AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE "FOR" ALL FIVE OF THE ABOVE-NAMED NOMINEE DIRECTORS OF HEMISPHERX.

27

PROPOSAL NO. 2

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Board of Directors, upon the recommendation of the Audit Committee, has appointed the firm of McGladrey & Pullen, LLP (“McGladrey”) as independent registered public accountants of Hemispherx for the fiscal year ending December 31, 2008 subject to ratification by the stockholders. McGladrey has served as Hemispherx’s independent registered public accountant since November 2006.

On November 9, 2006, the Audit Committee of our Board of Directors approved the appointment of and engaged McGladrey as our independent registered public accounting firm, effective immediately. McGladrey replaced BDO Seidman, LLP (“BDO”) as our independent registered public accounting firm.

As noted in our Current Report on Form 8-K/A filed with the Commission on September 22, 2006, BDO informed us that it would resign from the client-auditor relationship with us no later than the date of our filing of our Form 10-Q report for the period ending September 30, 2006. BDO's decision to resign was not recommended or approved by our Audit Committee. On November 7, 2006, we filed our Form 10-Q report for the period ended September 30, 2006 and BDO resigned from the client-auditor relationship with us.

BDO's reports on our financial statements for the fiscal years ended December 31, 2004 and December 31, 2005 did not contain any adverse opinion or any disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2004 and December 31, 2005,and the subsequent interim period preceding the date of BDO's resignation, there were no disagreements between us and BDO on any matter of accounting principles or practice, financial statement disclosure or auditing scope of procedure which, if not resolved to the satisfaction of BDO, would have caused BDO to make a reference to the subject matter thereof in connection with its reports and, during the same period, there were no reportable events as defined in item 304(a)(1)(v) of Regulation S-K, except as previously reported in Item 9A of our 2005 Form 10-K/A2.

All audit and professional services are approved in advance by the Audit Committee to assure such services do not impair the auditor’s independence from us. The total fees by McGladrey for 2006 and 2007 were $205,000 and $280,000, respectively. The following table shows the aggregate fees for professional services rendered during the year ended December 31, 2007.

	Amount ($)	
Description of Fees	**2006**	**2007**
Audit Fees	$ 205,000	$ 220,000
Audit-Related Fees	-	60,000
Tax Fees	-	-
All Other Fees	-	-
Total	$ 205,000	$ 280,000

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.

28

Audit-Related Fees

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

The Audit Committee has determined that McGladrey’s rendering of these audit-related services was compatible with maintaining auditor’s independence. The Board of Directors considered McGladrey to be well qualified to serve as our independent public accountants. The committee also pre-approved the charges for services performed in 2006 and 2007.

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.

Representatives of McGladrey & Pullen, LLP will be present at the annual meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

THE BOARD OF DIRECTORS DEEMS PROPOSAL NO. 2 TO BE IN THE BEST INTERESTS OF HEMISPHERX AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE "FOR" APPROVAL THEREOF.

29

PROPOSAL NO. 3

APPROVAL OF THE ISSUANCE OF COMMON STOCK TO COMPLY WITH AMEX COMPANY GUIDE SECTION 713

In connection with the transaction described below with Fusion Capital Fund II, LLC ("Fusion Capital"), we are seeking approval of the issuance of Common Stock that could equal or exceed 14,816,757 shares, or 20% of the outstanding shares of Common Stock. Section 713 of the American Stock Exchange ("AMEX") Company Guide provides that we 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 our outstanding common stock (the "Exchange Cap"). The Purchase Agreement described below provides that no sales can be made if they would cause us to violate the Exchange Cap.

On July 2, 2008, we entered into a $30 million Common Stock Purchase Agreement ("Purchase Agreement") with Fusion Capital. Concurrently with entering into the Purchase Agreement, we entered into a registration rights agreement with Fusion Capital. Under the registration rights agreement, we agreed to file a registration statement related to the transaction with the U.S. Securities & Exchange Commission (“SEC”) covering the shares that have been issued or may be issued to Fusion Capital under the common stock purchase agreement. After the SEC has declared effective the registration statement related to the transaction, we have the right over a 25-month period to sell our shares of common stock to Fusion Capital from time to time in amounts between $120,000 and $1 million, depending on certain conditions as set forth in the agreement, up to $30.0 million. The purchase price of the shares related to the $30.0 million of future funding will be based on the prevailing market prices of the Company’s shares at the time of sales without any fixed discount, and the Company will control the timing and amount of any sales of shares to Fusion Capital. Fusion Capital shall not have the right or the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below $0.40. The Purchase Agreement may be terminated by us at any time at our discretion without any cost to us. There are no negative covenants, restrictions on future fundings, penalties or liquidated damages in the agreement. In consideration for entering into the $30.0 million agreement, upon execution of the Purchase Agreement we have issued to Fusion Capital 650,000 shares as a commitment fee. Also, we will issue to Fusion Capital an additional 650,000 shares as a commitment fee pro rata as we receive up to the $30.0 million of future funding.

We anticipate using the proceeds from this financing to fund infrastructure growth including manufacturing, regulatory compliance and market development, as well as to prospectively fund market opportunities and strategic partnerships.

As of July 8, 2008, the closing bid price for our common stock on the American Stock Exchange was $1.07 per share. Assuming a purchase price of $1.07 per share, approximately 28,037,383 shares of common stock (exclusive of the shares issuable as a commitment fee “Commitment Shares”) would be issued under the Purchase Agreement to realize the entire $30,000,000.

On July 2, 2008, we had 74,120,848 outstanding shares of Common Stock. Accordingly, we cannot issue more than 14,816,757 shares (the “Exchange Cap”) under the Purchase Agreement (inclusive of the Commitment Shares) without obtaining stockholder approval.

To assure that we are in compliance with Company Guide Section 713 and to permit us to sell shares under the Purchase Agreement in excess of the Exchange Cap, we are requesting your approval of the issuance of Common Stock that could equal or exceed 20% of the outstanding shares of Common Stock (inclusive of the Commitment Shares).

A copy of the Purchase Agreement has been filed as an exhibit to our Current Report on Form 8-K dated and filed on July 8, 2008.

Previous transactions with Fusion Capital

In July 2005 we entered into a prior common stock purchase agreement with Fusion Capital, pursuant to which we sold an aggregate of 8,791,838 shares for total gross proceeds of $20,000,000.

In April 2006 we entered into a prior common stock purchase agreement with Fusion Capital, pursuant to which we sold an aggregate of 10,682,032 shares for total gross proceeds of $19,739,131 through November, 2007.

Effects of issuance of the shares

A significant number of shares will be issuable pursuant to the Purchase Agreement. To the extent that a significant number of these shares are issued, there will be a substantial pro rata dilution to our current stockholders. In addition, because these shares will be registered for public sale, such sales, or the anticipation of the possibility of such sales, represents an overhang on the market and could depress the market price of our common stock.

If issuance of these shares is not approved by stockholders, we most likely will not be able to realize the entire $30,000,000 under the Purchase Agreement.

THE BOARD OF DIRECTORS DEEMS PROPOSAL NO. 3 TO BE IN THE BEST INTERESTS OF HEMISPHERX AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE "FOR" APPROVAL THEREOF.

GENERAL

Unless contrary instructions are indicated on the proxy, all shares of common stock represented by valid proxies received pursuant to this solicitation (and not revoked before they are voted) will be voted FOR the election of all Directors nominated and FOR Proposals No. 2, and No. 3.

The Board of Directors knows of no business other than that set forth above to be transacted at the meeting, but if other matters requiring a vote of the stockholders arise, the persons designated as proxies will vote the shares of common stock represented by the proxies in accordance with their judgment on such matters. If a stockholder specifies a different choice on the proxy, his or her shares of common stock will be voted in accordance with the specification so made.

Annual Report on Form 10-K

Copies of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, including financial statements, exhibits and any amendments thereto, as filed with the SEC may be obtained without charge upon written request to: Corporate Secretary, Hemispherx Biopharma, Inc., 1617 JFK Boulevard, Philadelphia, Pennsylvania 19103. You can also get copies of our filings made with the SEC, including the Annual Report on Form 10-K, by visiting the SEC's web site at www.sec.gov.

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. WE URGE YOU TO FILL IN, SIGN AND RETURN THE ACCOMPANYING FORM OF PROXY IN THE PREPAID ENVELOPE PROVIDED, NO MATTER HOW LARGE OR SMALL YOUR HOLDINGS MAY BE.

By Order of the Board of Directors,
Ransom W. Etheridge, Secretary

Philadelphia, Pennsylvania
July ____, 2008

32

HEMISPHERX BIOPHARMA, INC.
ANNUAL MEETING OF STOCKHOLDERS
SEPTEMBER 17, 2008

THIS PROXY IS SOLICTED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints William A. Carter and Ransom W. Etheridge and each of them, with full power of substitution, as proxies to represent the undersigned at the Annual Meeting of Stockholders to be held at the Crown Plaza Hotel, 1800 Market Street, Philadelphia, Pennsylvania 19103, on Wednesday, September 17, 2008, at 10:00 a.m. local time and at any adjournment thereof, and to vote all of the shares of common stock of Hemispherx Biopharma, Inc. the undersigned would be entitled to vote if personally present, upon the following matters:

Please mark box in blue or black ink.

1. **Proposal No.1**-Election of Directors.

Nominees: William A. Carter, Richard C. Piani, Tom Equels, William M. Mitchell and Iraj-Eqhbal Kiani.

o For all nominees (except as marked to the contrary below)   o Authority Withheld as to all Nominees

(INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, STRIKE A LINE THROUGH THE NOMINEE'S NAME)

William A. Carter   Richard C. Piani   Tom Equels   William M. Mitchell   Iraj-Eqhbal Kiani

2. **Proposal No. 2**-Ratification of the selection of McGladrey & Pullen, LLP, as independent registered public accounting firm of Hemispherx Biopharma, Inc. for the year ending December 31, 2008.

o For   o Against   o Abstain

3. **Proposal No. 3** - To approve the issuance of our common stock to comply with AMEX company guide section 713.

o For   o Against   o Abstain

1

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED. THE BOARD RECOMMENDS A VOTE “FOR” ALL DIRECTORS AND “FOR” ITEMS NOS. 2 AND 3. IF NO CONTRARY INSTRUCTION IS GIVEN, THE SHARES WILL BE VOTED FOR THE ELECTION OF WILLIAM A. CARTER, RICHARD C. PIANI, TOM EQUELS, WILLIAM A. MITCHELL AND IRAJ-EQHBAL KIANI AS DIRECTORS, FOR PROPOSALS NO.S 2 AND 3 AND, IN THE DISCRETION OF THE PROXIES, ON ALL OTHER MATTERS PROPERLY BROUGHT BEFORE THE ANNUAL MEETING.

Please date, sign as name appears at left, and return promptly. If the stock is registered in the name of two or more persons, each should sign. When signing as Corporate Officer, Partner, Executor, Administrator, Trustee, or Guardian, please give full title. Please note any change in your address alongside the address as it appears in the Proxy.

Dated:

Signature

(Print Name)

SIGN, DATE AND RETURN PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE

2