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

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

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

For the Quarterly Period Ended September 30, 2005

Commission File Number: 0-27072

HEMISPHERx BIOPHARMA, INC.

-----  
(Exact name of registrant as specified in its charter)

Delaware

52-0845822

-----  
(State or other jurisdiction of  
incorporation or organization)

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

1617 JFK Boulevard, Suite 660, Philadelphia, PA 19103

-----  
(Address of principal executive offices) (Zip Code)

(215) 988-0080

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

Not Applicable

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

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

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

62,299,252 shares of common stock were issued and outstanding as of July 12, 2006.

FORM 10-Q/A  
EXPLANATORY NOTE

This amendment on Form 10-Q/A amends our Quarterly Report for the third quarter of 2005 initially filed with the Securities and Exchange Commission ("SEC") on November 9, 2005 (the "original Form 10-Q"). It is being filed to reflect the restatement (the "Restatements") of our consolidated balance sheets and related

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consolidated statements of operations, cash flows and stockholders' equity and comprehensive loss as of and for the three and nine months ended September 30, 2005 and 2004, as discussed in Note 2 to the consolidated financial statements.

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

In accordance with Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended, the complete texts of Part I, Items 1, 2 and 4 are set forth herein, including those portions of the text that have not been amended from that set forth in the original Form 10-Q. The only changes to the text in Part I, Items 1, 2 and 4 of the original Form 10-Q are as follows:

### Part I

#### Item 1.

- o The financial statements, including the footnotes, have been revised to reflect the changes required by the Restatements.
- o A new footnote (Note 2) has been added to describe the Restatements and the other footnotes have been revised to conform with the footnote presentation and disclosure in our Form 10-Q for the quarter ended March 31, 2006 (which was filed with the SEC on June 30, 2006).
- o Note 3: Stock based compensation was revised to include the pro forma effect on the Company's net loss and loss per share had compensation cost for the Company's option plans been determined for the three months ended June 30, 2004 and 2005.
- o Note 6: Revenue and Licensing Fee Income was changed to reflect the restatement due to the Company incorrectly recording \$241,000 in other income related to the termination of the Memorandum of Understanding notice received by Astellas.
- o The paragraph concerning the closing of the August 2004 Private Placement and its triggering of anti-dilution provisions within Note 9: Equity Financing was removed to reflect the changes required by the restatements.

#### Item 2.

- o An additional critical accounting policy titled "Convertible Debentures" has been added.
- o The following subsections in both "Three months ended September 30, 2005 versus Three months ended September 30, 2004" and "Nine months ended September 30, 2005 versus Nine months ended September 30, 2004" have been revised as a result of the Restatements: "Net Loss" (which is now "Net Loss Applicable to Common Stockholders"), "General and Administrative Expenses" and "Interest Expense and Financing Costs." In addition, a subsection titled "Deemed Dividend" has been added in the three and nine month comparisons.

- o An additional risk factor titled "We reported material weaknesses in our internal control over financial reporting that, if not remedied, could adversely affect our internal controls" has been added.
- o The risk factor "We may continue to incur substantial losses and our future profitability is uncertain" has been revised to correct the accumulated deficit as a result of the Restatements.
- o The table within "Liquidity and Capital Resources" disclosing information concerning debenture installment payments and conversions to common Shares was changed to conform to Note 8 within the financial statements.

Item 4.

- o This Item has been revised in its entirety due to the Restatements.

Summary of Restatements

In 2003 and 2004, we entered into convertible debenture arrangements which are inherently complicated, which have been and continue to be the subject of numerous intricate accounting pronouncements and interpretations and which are not classified as normal recurring transactions. Our convertible debenture transactions were reported within our previously filed financial statements for the years ended December 31, 2003 and 2004. After an extensive review and consultation with the our independent registered public accountants and our audit committee, we determined that we must restate our historical financial statements for the years ended December 31, 2003 and 2004 as well as the interim financial statements for 2003, 2004, and 2005. We determined that, with respect to the accounting for the convertible debentures, the interpretation and application of EITF No. 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" was not correct at the time the convertible debentures were initially recorded and upon conversion price resets related to the convertible debentures. As a result of this determination, we restated our annual financial statements and quarterly results of operations (unaudited) included in our annual report on Form 10-K/A for the period ending December 31, 2005, which was filed on June 5, 2006 and further amended Footnote 19, Quarterly Results of Operations (unaudited), to those financials in our Annual Report on Form 10-K/A-2 for the fiscal year ended December 31, 2005, which was filed on July 31, 2006.

In addition, we restated: (i) our condensed consolidated unaudited interim financial statements for the quarter ended March 31, 2005 included in our quarterly report on Form 10-Q for the quarter ended March 31, 2006, which was filed on June 30, 2006; (ii) our condensed consolidated unaudited interim financial statements for the quarter and six months ended June 30, 2005 and 2004, included in our June 30, 2005 quarterly report on Form 10-Q/A filed on July 31, 2006, and (iii) the condensed consolidated unaudited interim financial statements for quarter and nine months ended September 30, 2005 and 2004 included in this quarterly report on Form 10-Q/A. The modifications in the restated financial statements relate to non-cash charges that do not affect our revenues, cash flows from operations or liquidity.

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## PART I - FINANCIAL INFORMATION

### ITEM 1: Financial Statements

#### HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES Consolidated Balance Sheets (in thousands, except share data)

##### ASSETS

###### Current assets:

Cash and cash equivalents  
Short term investments  
Inventory, net (Note 5)  
Accounts and other receivables  
Prepaid expenses and other current assets

Total current assets

Property and equipment, net  
Patent and trademark rights, net  
Investment (Note 4)  
Construction in Progress  
Deferred financing costs  
Advance receivable (Note 8)  
Other assets

Total assets

##### LIABILITIES AND STOCKHOLDERS' EQUITY

###### Current liabilities:

Accounts payable  
Accrued expenses  
Current portion of long-term debt, net

Total current liabilities

Long-Term Debt-net of current portion (Note 8)

Commitments and contingencies  
(Note 12)

Stockholders' equity : Preferred stock par value \$0.01 per share Authorized  
5,000,000; issued and outstanding; None  
Common stock, par value \$0.01 per share, authorized 100,000,000 shares; issued and  
outstanding\_49,631,766 and 52,124,396, respectively  
Additional paid-in capital  
Accumulated other comprehensive income  
Accumulated deficit

Total stockholders' equity

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Total liabilities and stockholders' equity

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,	
	2004	2005
	(Restated)	(Restated)
Revenues:		
Sales of product net	\$ 222	\$ 216
Clinical treatment programs	36	55
	-----	-----
Total Revenues:	258	271
Costs and expenses:		
Production/cost of goods sold	699	93
Research and development	974	987
General and administrative	1,299	1,384
	-----	-----
Total costs and expenses	2,972	2,464
Impairment Loss	(373)	--
Interest and other income	32	250
Interest expense	(66)	(84)
Financing costs (Note 8)	(1,031)	(616)
	-----	-----
Net loss	\$ (4,152)	\$ (2,643)
Deemed Dividend	(1,676)	--
	-----	-----
Net loss applicable to common shareholder	\$ (5,828)	\$ (2,643)
	=====	=====
Basic and diluted loss per share	\$ (.12)	\$ (.05)
	=====	=====
Weighted average shares outstanding	47,062,018	51,301,946
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2004	2005
	(Restated)	(Restated)
Revenues:		
Sales of product net	\$ 779	\$ 685
Clinical treatment programs	128	144
	-----	-----
Total Revenues:	907	829
Costs and expenses:		
Production/cost of goods sold	1,991	294
Research and development	2,696	3,413
General and administrative	5,229	3,933
	-----	-----
Total costs and expenses	9,916	7,640
Impairment loss	(373)	--
Interest and other income	56	543
Interest expense	(272)	(297)
Financing costs (Note 8)	(4,402)	(2,403)
	-----	-----
Net loss	\$ (14,000)	\$ (8,968)
Deemed Dividend	(4,031)	--
	-----	-----
Net loss applicable to common stockholders	\$ (18,031)	\$ (8,968)
	=====	=====
Basic and diluted loss per share	\$ (.41)	\$ (.18)
	=====	=====
Weighted average shares outstanding	43,725,586	50,461,043
	=====	=====

See accompanying notes to consolidated financial statements.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES  
 Consolidated Statements of Changes in Stockholders'  
 Equity and Comprehensive Loss  
 For the Nine Months Ended September 30, 2005 (Unaudited)  
 (in thousands, except share data)

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	Common stock		Additional paid-in capital	Accumulated o Comprehensive Income (Loss)
	Shares	Amount		
Balance as of December 31, 2004, Restated	49,631,766	\$ 50	\$ 154,609	\$ (10)
Shares issued for:				
Payment of accounts payable	277,230		314	
Conversion of debt	1,066,887	1	1,610	
Warrants converted	5,000		9	
Interest on convertible debt	192,008		317	
Private placement, net of issuance costs	951,505	1	789	--
Options and warrants issued for services			289	
Conversion price adjustment			133	
Net comprehensive loss				(224)
Balance as of September 30, 2005, Restated	52,124,396	\$52	\$ 158,070,	\$ (234)

See accompanying notes to financial statements

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HEMISPHERx BIOPHARMA, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
For the Nine Months Ended September 30, 2004 and 2005 (Unaudited)  
(in thousands)

	2004	2005
	(Restated)	(Restated)
Cash flows from operating activities:		
Net loss	\$ (14,000)	\$ (8,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	83	
Amortization of patent and trademark rights	276	
Amortization of deferred financing costs	3,872	2,000
Financing cost related to redemption obligation	530	
Stock warrant compensation expense	2,000	
Impairment loss	373	
Interest expense	272	
Changes in assets and liabilities:		
Inventory	613	
Accounts and other receivables	185	
Deferred revenue	497	
Prepaid expenses and other		

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current assets	103	
Accounts payable	522	
Accrued expenses	(538)	
Other Assets	(6)	
	-----	-----
Net cash used in operating activities	(5,218)	(5,218)
	-----	-----
Cash flows from investing activities:		
Purchase of land and building	(1,689)	
Purchase of property, plant and equipment	--	
Additions to patent and trademark rights	(168)	
Maturity of short term investments	1,496	7,496
Purchase of short term investments	(6,009)	(6,009)
Deferred acquisition costs	1,546	
	-----	-----
Net cash (used) provided by investing activities	\$ (4,824)	\$ (4,824)
	-----	-----

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HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES  
 Consolidated Statements of Cash Flows (Continued)  
 For the NineMonths Ended September 30, 2004 and 2005(Unaudited)  
 (in thousands)

	2004	2005
	-----	-----
	(Restated)	(Restated)
Cash flows from financing activities:		
Proceeds from long-term borrowing	7,550	
Advance receivable	(550)	
Proceeds from exercise of stock Warrants	5,100	
Proceeds from sale of stock	6,983	
	-----	-----
Net cash provided by financing activities	19,083	
	-----	-----
Net increase (decrease) in cash and cash equivalents	9,041	(3,041)
Cash and cash equivalents at beginning of period	3,764	8,041
	-----	-----



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Cash and cash equivalents at end of period	\$ 12,805	\$ 4,
	=====	=====
Supplemental disclosures of cash flow information:		
Issuance of common stock for accounts payable and accrued expenses	\$ 311	\$
	=====	=====
Issuance of Common Stock for Purchase of building deferred acquisition costs	\$ 1,626	\$
	=====	=====
Issuance of Common Stock for Debt Conversion and Interest Payments on Convertible Debt	\$ 7,216	\$ 1,
	=====	=====

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 accompanying consolidated financial statements include the accounts of Hemispherx BioPharma, Inc., a Delaware corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

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

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

These consolidated financial statements should be read in conjunction with our consolidated financial statements included in our annual report on Form 10-K/A-2 for the year ended December 31, 2005, as filed with the SEC on July 31, 2006.

#### Note 2: Restatements

In 2003 and 2004, the Company entered into convertible debenture arrangements which are inherently complicated, which have been and continue to be the subject of numerous intricate accounting pronouncements and interpretations and which are not classified as normal recurring transactions. The Company's convertible debenture transactions were reported within the Company's previously filed financial statements for the years ended December 31, 2003 and 2004. After an extensive review and consultation with the the Company's independent registered public accountants and the Company's audit committee, it was determined that the Company must restate its historical financial statements for the years ended December 31, 2003 and 2004 as well as the interim financial statements for 2003, 2004, and 2005. The Company determined that, with respect to the accounting for

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the convertible debentures, the interpretation and application of EITF No. 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" was not correct at the time the convertible debentures were initially recorded and upon conversion price resets related to the convertible debentures. As a result of this determination, the Company restated its annual financial statements and quarterly results of operations (unaudited) included in its annual report on Form 10-K/A for the period ending December 31, 2005, which was filed on June 5, 2006 and further amended Footnote 19, Quarterly Results of Operations (unaudited), to those financials in its Annual Report on Form 10-K/A-2 for the fiscal year ended December 31, 2005, which was filed on July 31, 2006.

In addition, the Company restated: (i) its condensed consolidated unaudited interim financial statements for the quarter ended March 31, 2005 included in its quarterly report on Form 10-Q for the quarter ended March 31, 2006, which was filed on June 30, 2006; (ii) its condensed consolidated unaudited interim financial statements for the quarter and six months ended June 30, 2005 and 2004, contained in our June 30, 2005 quarterly report on Form 10-Q/A filed on July 31, 2006, and (iii) the condensed consolidated unaudited interim financial statements for quarter and nine months ended September 30, 2005 and 2004 included in this quarterly report on Form 10-Q/A. The modifications in the restated financial statements relate to non-cash charges that do not affect its revenues, cash flows from operations or liquidity.

- (a) Based on SEC guidance presented at the 2005 annual AICPA National Conference on current SEC and PCAOB developments, the Company re-evaluated its accounting for its March 2003, July 2003, October 2003, January 2004 and July 2004 Debentures (collectively, "the Debentures") to determine whether the embedded conversion options required bifurcation and fair value accounting in accordance with FASB Statement No. 133, "Accounting

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for Derivative Instruments and Hedging Activities", and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock". The Company concluded that bifurcation was not required and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") should have been applied. The Company did initially apply EITF 00-27, however as part of performing an analysis on the guidelines set forth in EITF 00-27 it was determined that the initial accounting treatment for the Debentures and conversion price resets that was originally applied and reflected in the financial statements included in the Company's Annual Reports on Form 10-K for the years ended December 31, 2004 and 2003, and in the Company's Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 were not correctly applied and that, therefore, a restatement of the Company's financial statements for the periods referenced above was required. To properly account for the initial calculation of the discount and the conversion price resets triggered upon the issuance of the October 2003 Debenture and the August 2004 Private Placement (See Notes 8 & 9 below for more details on these resets), it was determined, under guidance from EITF 00-27 that the debt discount should be restated for the Debentures. The total impact of this restatement on the Company's statement of operations was to decrease the net loss applicable to common stockholders for the three months ended September 30, 2004 and 2005 by approximately \$2,903,000 and \$611,000 or \$0.06 and \$0.01 per share, respectively, and decrease the net loss applicable to common stockholders for the nine months ended September 30, 2004 and 2005 by approximately \$7,237,000 and \$1,402,000, or \$0.17 and \$0.03 per share, respectively.

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- (b) The estimation of fair value ascribed to and the accounting treatment of the investment banking fees paid to Cardinal Capital, LLC ("Cardinal") in connection with the Debenture issuances, at inception, was inaccurately reflected in the financial statements included in the Company's Annual Report on Form 10-K for the years ended December 31, 2004 and 2003, and the Company's Quarterly reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 and as a result a restatement of the Company's financial statements for the periods referenced above was required. In connection with the initial recording of the Debentures mentioned above, it was determined that the fair value of the warrants issued as investment banking fees paid to Cardinal, be accounted for as a discount to the Debentures. These investment banking fees should have been capitalized as deferred financing costs and amortized over the life of the Debentures or charged to earnings on the earlier conversion thereof. In addition, the initial calculation of the fair value of the warrants issued to Cardinal as part of the Debenture issuances was determined to be computed incorrectly at the time of issuance. The total impact of this restatement on the Company's statement of operations was to increase the net loss applicable to common stockholders for the three months ended September 30, 2004 and 2005 by approximately \$48,000 and \$48,000 or \$0.00 and \$0.00 per share respectively, and increase the net loss applicable to common stockholders for the nine months ended September 30, 2004 and 2005 by approximately \$233,000 and \$135,000 or \$0.00 and \$0.00 per share, respectively.
- (c) The accounting treatment for certain warrants and options issued to non-employees and our interpretation and application of FASB No. 123 was not correct in 2005. The total impact of this restatement on the Company's settlement of operations was to increase the net loss for the three months ended September 30, 2005, by approximately \$78,000 or \$0.00 per share and an increase in the net loss applicable to common stockholders for the nine months ended September 30, 2005 by approximately \$236,000 or \$0.00 per share.
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- (d) The accounting treatment set forth in FASB Statement No. 123, "Accounting for Stock-Based Compensation", for the issuance of the May 2009 Warrants that was originally interpreted and reflected in the financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2003 and 2004, and in the Company's Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 was not correctly applied and as a result a restatement of our financial statements for the periods referenced above was required. The Warrants issued as incentive to exercise prior warrant issuances should be reflected as a deemed dividend at the date of issuance where previously these warrants were either recorded as additional debt discount or as a financing charge at date of issuance. The total impact of this restatement on our statement of operations was to decrease the net loss applicable to common stock holders for the three and nine months ended September 30, 2004 by \$1,676,000 and \$4,031,000 or \$0.04 and \$0.09 per share, respectively.
- (e) The Company incorrectly recorded \$241,000 in other income Memorandum of Understanding ("MOU") in the third quarter 2005 related to the termination of the MOU notice received by Astellas. This amount was subsequently adjusted back to an accrued liability as of September 30, 2005, as the agreement had not yet been formally terminated. The total impact of this restatement on our statement of operations was to increase the net loss for the three and nine months ended September 30, 2005, by approximately

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\$241,000 or \$0.00 and \$0.00 per share, respectively.

As a result of the corrections of the errors described above, the Company has restated its financial statements for this Quarterly Report on Form 10-Q/A as follows:

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES  
 Unaudited Consolidated Statements of Operations  
 (in thousands, except share and per share data)  
 Three Months Ended September 30, 2005

	September 30, 2005 ----- As previously Reported	Adjustments -----	
Revenues:			
Sales of product net	\$ 216		
Clinical treatment programs	55		
	-----		
Total Revenues:	271		
Costs and expenses:			
Production/cost of goods sold	93		
Research and development	913	\$ (74) (c)	
General and administrative	1,380	(4) (c)	
	-----	-----	
Total costs and expenses	2,386	(78)	
Interest and other income	491	(241) (e)	
Interest expense	(84)		
Financing costs	(1,179)	563 (a) (b)	
	-----	-----	
Net loss	\$ (2,887)	\$ 244	\$
	=====	=====	=====
Basic and diluted loss per share	\$ (.06)	\$ 0.01	\$
	=====	=====	=====
Weighted average shares outstanding	51,301,946		51,
	=====		=====

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- (a) Includes restatement adjustments for the Debentures relating to the initial recording of and the effect of certain Conversion Price Resets on the Debentures, as described above.
- (b) Includes restatement adjustment for investment banking fees related to Cardinal, as described above.
- (c) Includes restatement adjustments for certain warrants and options issued to non-employees and the Company's interpretation and application of FASB No. 123 was not correct in 2005, as described above.

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- (e) Includes restatement adjustment for termination of the MOU notice received by Astellas, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES  
 Unaudited Consolidated Statements of Operations  
 (in thousands, except share and per share data)  
 Three Months Ended September 30, 2004

	September 30, 2004 ----- As previously Reported	Adjustments -----	
Revenues:			
Sales of product net	\$ 222		\$
Clinical treatment programs	36 -----		-----
Total Revenues:	258		
Costs and expenses:			
Production/cost of goods sold	699		
Research and development	974		
General and administrative	1,299 -----		-----
Total costs and expenses	2,972		
Impairment loss	(373)		
Interest and other income	32		
Interest expense	(66)		
Financing costs	(3,886) -----	\$ 2,855 (a) (b) -----	-----
Net loss	\$ (7,007)	2,855 (a) (b)	\$
Deemed Dividend	-- -----	(1,676) (d) -----	-----
Net loss applicable to common stockholders	\$ (7,007) =====	\$ 1,179 =====	\$
Basic and diluted loss per share	\$ (.15) =====	\$ 0.03 =====	\$
Weighted average shares outstanding	47,062,018 =====		47, =====

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

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

- (d) Includes restatement adjustment for the issuance of the June 2009 warrants

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as incentive to exercise prior warrant issuances, as described above.

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HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES  
 Unaudited Consolidated Statements of Operations  
 (in thousands, except share and per share data)  
 Nine Months Ended September 30, 2005

	September 30, 2005	Adjustments	
	----- As previously Reported	-----	
Revenues:			
Sales of product net	\$ 685		
Clinical treatment programs	144		
	-----		
Total Revenues:	829		
Costs and expenses:			
Production/cost of goods sold	294		
Research and development	3,339	\$ (74) (c)	
General and administrative	3,771	(162) (c)	
	-----	-----	
Total costs and expenses	7,404	(236)	
Interest and other income	784	(241) (e)	
Interest expense	(297)		
Financing costs	(3,670)	1,267 (a) (b)	
	-----	-----	
Net loss	\$ (9,758)	\$ 790	\$
	=====	=====	=====
Basic and diluted loss per share	\$ (.19)	\$ 0.01	
	=====	=====	=====
Weighted average shares outstanding	50,461,043		50,
	=====		=====

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

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

(c) Includes restatement adjustments for certain warrants and options issued to non-employees and the Company's interpretation and application of FASB No. 123 was not correct in 2005, as described above.

(e) Includes restatement adjustment for termination of the MOU notice received by Astellas, as described above.

HEMISPHERX BIOPHARMA, INC. AND SUBSIDIARIES  
 Unaudited Consolidated Statements of Operations  
 (in thousands, except share and per share data)  
 Nine Months Ended September 30, 2004

	September 30, 2004 ----- As previously Reported	Adjustments -----	
Revenues:			
Sales of product net	\$ 779		
Clinical treatment programs	128		
	-----		
Total Revenues:	907		
Costs and expenses:			
Production/cost of goods sold	1,991		
Research and development	2,696		
General and administrative	5,229		
	-----		
Total costs and expenses	9,916		
Impairment loss	(373)		
Interest and other income	56		
Interest expense	(272)		
Financing costs	(11,406)	\$ 7,004 (a) (b)	
	-----	-----	
Net loss	\$ (21,004)	7,004 (a) (b)	\$
Deemed Dividend	--	(4,031) (d)	
	-----	-----	
Net loss applicable to common stockholders	\$ (21,004) =====	\$ 2,973 =====	\$ ==
Basic and diluted loss per share	\$ (.48) =====	\$ 0.07 =====	\$ ==
Weighted average shares outstanding	43,725,586 =====		43, ==

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

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the Debentures, as described above.

- (b) Includes restatement adjustment for investment banking fees related to Cardinal, as described above.
- (d) Includes restatement adjustment for the issuance of the May and June 2009 warrants as incentive to exercise prior warrant issuances, as described above.

The Company and the Company's audit committee have discussed the above errors and adjustments with the Company's current independent registered public accounting firm and have determined that a restatement was necessary for the period described above.

### NOTE 3: STOCK BASED COMPENSATION

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

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

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

	September 30,	
	2004	2005
Risk-free interest rate	2.25%	4.81%
Expected lives	5 Years-	5 years
Expected volatility	68.92% - 69.68%	58.78% - 60.67%

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Had compensation cost for the Company's option plans been determined, using the fair value method at the grant dates, the effect on the Company's net loss and loss per share for the three and nine months ended September 30, 2004 and 2005 would have been as follows:

	(In Thousands) Three Months Ended September 30,		(In Tho Nine Mont Septemb
	2004	2005	2004
Net loss applicable to common stockholders, as restated	\$ (5,828)	\$ (2,643)	\$ (18,031)
Add: Stock based employee compensation expenses; included in reported net loss	231	177	2,000
Deduct: Total stock based employee compensation determined under fair value method for all awards	(813)	(291)	(813)



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	-----	-----	-----
Pro forma net loss	\$ (6,410)	\$ (2,757)	\$ (16,844)
	=====	=====	=====
Basic and diluted loss per share			
As restated	\$ (.12)	\$ (.05)	\$ (.41)
Pro forma	\$ (.14)	\$ (.05)	\$ (.39)

Note 4: INVESTMENT IN UNCONSOLIDATED AFFILIATES

Investments include an equity investment of \$35,000 in Chronix Biomedical ("Chronix"). Chronix focuses upon the development of diagnostics for chronic diseases. This initial investment was made in May 31, 2000 by the issuance of 50,000 shares of the Company's common stock from the treasury. On October 12, 2000, the Company issued an additional 50,000 shares of its common stock and on March 7, 2001 the Company issued 12,000 more shares of its common stock from the treasury to Chronix for an aggregate equity investment of \$700,000. The percentage ownership in Chronix is approximately 5.4% and is accounted for under the cost method of accounting. During the quarter ended December 31, 2002, the Company recorded a non-cash charge of \$292,000 with respect to the investment in Chronix. The Company recorded an additional non-cash charge of \$373,000 during the quarter ended September 30, 2004, due to evidence of a further decline in Chronix's market value. This impairment reduces the carrying value to reflect a permanent decline in Chronix's market value based on its then proposed investment offerings.

Note 5: INVENTORIES

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

Inventories consist of the following:

	(In Thousands)	
	December 31, 2004	September 30, 2005
	-----	-----
Raw materials-work in progress	\$1,711	\$1,711
Finished goods, net of \$100,000 reserve	437	123
	-----	-----
	\$2,148	\$1,834
	=====	=====

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The Company's reserve for R&D utilization as of September 30, 2005, totaled \$100,000 for Alferon N Injections(R) finished goods. The FDA recently extended the shelf-life of Alferon N Injection(R) to 24 months. The reserve represents product that may not be sold prior to expiration of its shelf-life.

NOTE 6: REVENUE AND LICENSING FEE INCOME

The Company executed a Memorandum of Understanding (MOU) in January 2004 with Astellas Pharma ("Astellas"), formally Fujisawa Deutschland GmbH, ("Fuji") a major pharmaceutical corporation, granting them an exclusive option for a limited number of months to enter a Sales and Distribution Agreement with

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exclusive rights to market Ampligen(R) for ME/CFS in Germany, Austria and Switzerland. The Company received an initial fee of 400,000 Euros (approximately \$497,000 US) in 2004. On November 9, 2004, Astellas exercised their right to terminate the MOU. The Company did not agree on the process to be utilized in certain European Territories for obtaining commercial approval for the sale of Ampligen(R) in the treatment of patients suffering from Chronic Fatigue Syndrome (CFS). Instead of a centralized procedure, and in order to obtain an earlier commercial approval of Ampligen(R) in Europe, the Company has determined to follow a decentralized filing procedure which was not anticipated in the MOU. The Company believes that it now is in the best interest of the Company's stockholders to potentially accelerate entry into selected European markets whereas the original MOU specified a centralized registration procedure. Pursuant to the agreement of the parties the Company refunded 200,000 Euros. The company has recorded the remaining 200,000 Euros as an accrued liability as of September 30, 2005. Fuji and Yamanouchi Pharmaceutical Co., Ltd. ("Yamanouchi") have reached a definitive agreement upon the terms of their merger, which took effect on April 1, 2005. Yamanouchi will be the surviving company and Fuji will be dissolved. The combined company name will be Astellas Pharma, Inc.

Revenues for non-refundable license fees are recognized under the Performance Method-Expected Revenue. This method considers the total amount of expected revenue during the performance period, but limits the amount of revenue recognized in a period to total non-refundable cash received to date. This limitation is appropriate because future milestone payments are contingent on future events.

Upon receipt, the upfront non-refundable payment is deferred. The non-refundable upfront payments plus non-refundable payments arising from the achievement of defined milestones are recognized as revenue over the performance period based on the lesser of (a) percentage of completion or (b) non-refundable cash earned (including the upfront payment).

This method requires the computation of a ratio of cost incurred to date to total expected costs and then apply that ratio to total expected revenue. The amount of revenue recognized is limited to the total non-refundable cash received to date.

During the period ended September 30, 2005, the Company did not receive any grant monies from local, state and or Federal Agencies.

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

Revenue from the sale of product are recognized when the product is shipped, as title is transferred to the customer. The Company has no other obligation associated with its products once shipment has occurred.

### Note 7: ACQUISITION OF ASSETS OF INTERFERON SCIENCES, INC. ("ISI")

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

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

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

On May 30, 2003, the Company issued the shares to GP Strategies and the American National Red Cross. Pursuant to the Company's agreements with ISI and these two creditors, the Company registered the foregoing shares for public sale. As a result at December 31, 2003 the guaranteed value of these shares (\$491,000), which had not been sold by these two creditors, were reclassified to redeemable common stock. At December 31, 2004, all shares had been sold by these two creditors and the redeemable common stock was reclassified to equity.

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

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

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

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

### Note 8: DEBENTURE FINANCING

Long term debt consists of the following:

	(in thousands)	
	December 31, 2004	September 30, 2005
	-----	-----
	(As Restated)	(As Restated)
October 2003 Debenture	\$ 2,071	\$ 2,071
January 2004 Debenture	3,083	1,972
July 2004 Debenture	2,000	1,500
	-----	-----
Total	7,154	5,543
Less Discounts	(2,842)	(870)
	-----	-----
Balance (As Restated)	4,312	4,673

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Less Current Portion of long-term debt	(3,818)	(4,673)
	-----	-----
Total long-term debt (As Restated)	\$ 494	\$ --
	=====	=====

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As of September 30, 2005, the Company made aggregate installment payments of \$2,389,000 and the investors converted an aggregate \$2,210,000 principal amount of debt from the debentures as noted below (in thousands):

Debenture	Original Principal Amount	Debt Conversion to Common Shares	Installment payments in Common Shares	Remaining Principal Amount	Common Sha issued f Conversi
-----	-----	-----	-----	-----	-----
October 2003	\$ 4,142	\$ 2,071	\$ --	\$ 2,071	1,025
January 2004	4,000	139	1,889	1,972	55
July 2004	2,000	--	500	1,500	--
	-----	-----	-----	-----	-----
Totals	\$10,142	\$ 2,210	\$ 2,389	\$ 5,543	1,080
	=====	=====	=====	=====	=====

As of December 31, 2004, the Company made installment payments of \$778,000 and investors converted an aggregate \$2,210,000 principal amount of debt from the debentures as noted below (in thousands):

Debenture	Original Principal Amount	Debt Conversion to Common Shares	Installment payments in Common Shares	Remaining Principal Amount	Common Sha issued f Conversi
-----	-----	-----	-----	-----	-----
October 2003	\$ 4,142	\$ 2,071	\$ --	\$ 2,071	1,025
January 2004	4,000	139	778	3,083	55
July 2004	2,000	--	--	2,000	--
	-----	-----	-----	-----	-----
Totals	\$10,142	\$ 2,210	\$ 778	\$ 7,154	1,080
	=====	=====	=====	=====	=====

July 2003 Debentures

On July 10, 2003, the Company issued an aggregate of \$5,426,000 in principal amount of 6% Senior Convertible Debentures due July 31, 2005 (the "July 2003 Debentures") and an aggregate of 507,102 Warrants (the "July 2008 Warrants") in a private placement for aggregate proceeds of \$4,650,000. At this time, the \$1,550,000 of proceeds from the March 2003 Debentures previously held back from the Company was released to the Company. However, pursuant to the terms of the July 2003 Debentures, \$1,550,000 of the proceeds from the sale of the July 2003 Debentures was held back and to be released to the Company if, and only if, the Company acquired ISI's facility within a set timeframe. These funds were released to the Company in October 2003 although the Company had not acquired

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ISI's facility at that time. The Company recorded an additional debt discount of \$259,000 upon receiving the held back proceeds of \$1,550,000 in October 2003. The July 2003 Debentures were to mature on July 31, 2005 and bore interest at 6% per annum, payable quarterly in cash or, subject to satisfaction of certain conditions, common stock. Any shares of common stock issued to the investors as payment of interest were valued at 95% of the average closing price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms and conditions of the July 2003 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

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The July 2003 Debentures were convertible at the option of the investors at any time through July 31, 2005 into shares of the Company's common stock. The conversion price under the July 2003 Debentures was fixed at \$2.14 per share; however, as part of the subsequent debenture placement closed on October 29, 2003 (see below), the conversion price under the July 2003 Debentures was lowered to \$1.89 per share. The conversion price was subject to adjustment for anti-dilution protection for issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect. In addition, in the event that the Company did pay the redemption price at maturity, the Debenture holders, at their option, could have converted the balance due at the lower of (a) the conversion price then in effect and (b) 95% of the lowest closing sale price of the Company's common stock during the three trading days ending on and including the conversion date. In 2003, the Company recorded a debt discount of approximately \$741,000 upon the conversion price reset to \$1.89 per share. The additional debt discount is amortized over the remaining life of these Debenture or, in the event of a conversion, written off to financing costs on a pro-rata basis.

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

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

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

The conversion option and detachable warrant carry registration rights and a feature that in certain circumstances, deemed in the control of the Company, could require partial settlement of the conversion options to be in cash. In addition, the July 2003 Debentures include other features including mandatory conversion option and optional redemption rights if contingent transactions occur. To determine whether the July 2003 Debentures had embedded derivatives, including the conversion option, that required bifurcation and fair value accounting, the Company analyzed the terms of the debentures in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging

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Activities" ("FAS 133"), and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" ("EITF 00-19"). The Company concluded that bifurcation was not required for the conversion option and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") was the appropriate accounting to be applied. The warrants were deemed to be permanent equity. The mandatory conversion option and optional redemption rights were deemed to be derivatives requiring bifurcation and thus the Company obtained a third party valuation for the aggregate fair value of these derivatives that showed the fair value to be immaterial at inception and for each subsequent reporting period.

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

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During 2004, the investors had converted \$4,257,071 principal of the July 2003 Debentures into 2,252,417 shares of the Company's Common Stock. As of December 31, 2004, the investors had converted the total \$5,426,000 principal of the July 2003 Debentures into 2,870,900 shares of common stock.

The Company recorded financing costs for the three months ended September 30, 2004 and 2005, with regard to the July 2003 Debentures of approximately \$130,000 and \$0, respectively.

The Company recorded financing costs for the nine months ended September 30, 2004 and 2005, with regard to the July 2003 Debentures of approximately \$1,496,000 and \$0, respectively.

### October 2003 Debentures

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

The October 2003 Debentures are convertible at the option of the investors at any time through October 31, 2005 into shares of the Company's common stock. The conversion price under the October 2003 Debentures is fixed at \$2.02 per share, subject to adjustment for anti-dilution protection for issuance of common stock

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or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect. In addition, in the event that the Company does not pay the redemption price at maturity, the Debenture holders, at their option, may convert the balance due at the lower of (a) the conversion price then in effect and (b) 95% of the lowest closing sale price of the Company's common stock during the three trading days ending on and including the conversion date.

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

Pursuant to the Company's agreement with the holders, the Company registered the shares issuable upon conversion of the October 2003 Debentures and upon exercise of the October 2008 Warrants for public sale.

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

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

In October 2005, the Company entered into an amendment agreement with the October 2003 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7% (see Note 13).

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

Pursuant to the Company's agreement with the holders, the Company registered the shares issuable upon exercise of these Warrants for public sale.

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

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

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As of September 30, 2005, the investors had converted \$2,071,179 principal amount of the October 2003 Debenture into 1,025,336 shares of Common Stock. The remaining balance of \$2,071,178 is convertible into 1,025,336 shares of common stock.

The Company recorded financing costs for the three months ended September 30, 2004 and 2005, with regard to the October 2003 Debentures of \$371,000 and \$124,000, respectively. Interest expense for the three months ended September 30, 2004 and 2005, with regard to the October 2003 Debentures was approximately \$45,000 and \$31,000, respectively.

The Company recorded financing costs for the nine months ended September 30, 2004 and 2005, with regard to the October 2003 Debentures of \$996,000 and \$865,000, respectively. Interest expense for the nine months ended September 30, 2004 and 2005, with regard to the October 2003 Debentures was approximately \$84,000 and \$93,000, respectively.

### January 2004 Debentures

On January 26, 2004, the Company issued an aggregate of \$4,000,000 in principal amount of 6% Senior Convertible Debentures due January 31, 2006 (the "January 2004 Debentures"), an aggregate of 790,514 warrants (the "July 2009 Warrants") and 158,104 shares of common stock, and Additional Investment Rights (to purchase up to an additional \$2,000,000 principal amount of January 2004 Debentures commencing in six months) in a private placement for aggregate net proceeds of \$3,695,000. The January 2004 Debentures were to mature on January 31, 2006 and bear interest at 6% per annum, payable quarterly in cash or, subject to satisfaction of certain conditions, common stock. As discussed below, the maturity date and interest rate were amended. Any shares of common stock issued to the investors as payment of interest shall be valued at 95% of the average closing price of the common stock during the five consecutive business days ending on the third business day immediately preceding the applicable interest payment date. Pursuant to the terms of the January 2004 Debentures, commencing July 26, 2004, the Company began to repay the then outstanding principal amount under the Debentures in monthly installments amortized over 18



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months in cash or, at the Company's option, in shares of common stock. Any shares of common stock issued to the investors as installment payments shall be valued at 95% of the average closing price of the common stock during the 10-day trading period commencing on and including the eleventh trading day immediately preceding the date that the installment is due. Pursuant to the terms and conditions of the January 2004 Debentures, the Company pledged all of the Company's assets, other than the Company's intellectual property, as collateral and was subject to comply with certain financial and negative covenants, which included but were not limited to the repayment of principal balances upon achieving certain revenue milestones (see "Collateral and Financial Covenants" below).

The January 2004 Debentures are convertible at the option of the investors at any time through January 31, 2006 into shares of the Company's common stock. The conversion price under the January 2004 Debentures was fixed at \$2.53 per share, subject to adjustment for anti-dilution protection for issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect. In addition, in the event that the Company does not pay the redemption price at maturity, the Debenture holders, at their option, may convert the balance due at the lower of (a) the conversion price then in effect and (b) 95% of the lowest closing sale price of the Company's common stock during the three trading days ending on and including the conversion date. Upon completion of the August 2004 Private Placement (see Note 9), the conversion price was lowered to \$2.08 per share. The Company recorded an additional debt discount as restated (see Note 2), of approximately \$915,000 due to this conversion price reset.

In October 2005, the Company entered into an amendment agreement with the January 2004 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7% (see Note 13).

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

Pursuant to the Company's agreement with these investors, the Company registered the shares issuable upon conversion of the January 2004 Debentures and upon exercise of the July 2009 Warrants for public sale.

The January 2004 Debentures were recorded at a discount on issuance and with an original issue discount of \$306,000 and \$465,000, respectively, due to ascribing value to the beneficial conversion feature and fair value of warrants based on the relative fair value of the proceeds.

The conversion option and detachable warrant carry registration rights and a feature that in certain circumstances, deemed in the control of the Company,

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

Section 713 of the American Stock Exchange Company Guide

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

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

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

Stockholder approval was obtained at the Company's Annual Meeting of Stockholders on June 23, 2004. In accordance with EITF 00-19, the Company revalued this redemption obligation associated with the 1,299,000 shares as of

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June 23, 2004 (date of shareholder approval). The Company recorded a reduction in the value of the redemption obligation and financing charge of \$839,000 as a result of this revaluation and additional financing charge of \$242,000 related to the amortization of the debt discount in the second quarter 2004. In addition, upon receiving the requisite stockholder approval on June 23, 2004, the redemption obligation of \$2,345,000 and the remaining unamortized debt discount of \$1,815,000 were reclassified as additional paid in capital.

As of September 30, 2005, the Company has made aggregate installment payments of \$1,888,888 and the investors have converted an aggregate of \$139,150 of principal amount of the January 2004 Debentures into 1,094,149 and 55,000 shares of common stock, respectively. During the nine months ended September 30, 2005, the investors converted approximately \$1,111,111 of principal amount of the January 2004 Debentures into 735,217 shares of common stock. The remaining principal on these Debentures was \$1,972,000 as of September 30, 2005.

The Company recorded financing costs for the three months ended September 30, 2004 and 2005 with regard to the January 2004 Debentures of \$216,000 and \$236,000, respectively. Interest expense for the three months ended September 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately \$54,000 and \$25,000, respectively.

The Company recorded financing costs for the nine months ended September 30, 2004 and 2005 with regard to the January 2004 Debentures of \$483,000 and \$746,000, respectively. Interest expense for the nine months ended September 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately \$157,000 and \$117,000, respectively.

### July 2004 Debentures

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

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

The conversion option and detachable warrant carry registration rights and a feature that in certain circumstances, deemed in the control of the Company, could require partial settlement of the conversion options to be in cash. In addition, the July 2004 Debentures include other features including mandatory conversion option and optional redemption rights if contingent transactions occur. To determine whether the July 2004 Debentures had embedded derivatives, including the conversion option, that required bifurcation and fair value accounting, the Company analyzed the terms of the debentures in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" (EITF

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00-19"). The Company concluded that bifurcation was not required for the conversion option and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") was the appropriate accounting to be applied. The warrants were deemed to be permanent equity. The mandatory conversion option and optional redemption rights were deemed to be derivatives requiring bifurcation and thus the Company obtained a third party valuation for the aggregate fair value of these derivatives that showed the fair value to be immaterial at inception and for each subsequent reporting period.

In October 2005, the Company entered into an amendment agreement with the July 2004 Debenture holders to amend the maturity date from October 31, 2005 to June 30, 2007, and increase the interest rate from 6% to 7% (see Note 13).

The remaining principal amount on these debentures was \$1,500,000 as of September 30, 2005.

The Company recorded financing costs for the three months ended September 30, 2004 and 2005 with regard to the July 2004 Debentures of \$124,000 and \$113,000, respectively. Interest expense for the three months ended September 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately \$31,000 and \$27,000, respectively.

The Company recorded financing costs for the nine months ended September 30, 2004 and 2005 with regard to the July 2004 Debentures of \$124,000 and \$361,000, respectively. Interest expense for the nine months ended September 30, 2004 and 2005, with regard to the January 2004 Debentures was approximately \$31,000 and \$87,000, respectively.

### Conversion of Convertible Debt

The maximum number of shares issuable upon debt conversion, including interest as well as 135% of the shares issuable upon conversion and interest payments were 5,011,525 and 3,759,094 shares at December 31, 2004 and September 30, 2005, respectively.

### Collateral and Financial Covenants

The Company paid \$1,300,000 in 2003 into the debenture cash collateral account held by the debenture holders as required by the terms of the October 2003 Debentures. The amounts paid have been accounted for as advances receivable and are reflected as such on the accompanying balance sheet as of September 30, 2005. The cash collateral account provides partial security for repayment of the outstanding Debentures in the event of default.

Pursuant to the terms and conditions of all of the outstanding Debentures, the Company has pledged all of the Company's assets, other than the Company's intellectual property, as collateral, and the Company is subject to comply with certain financial covenants.

### Note 9: EQUITY FINANCING

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

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

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

On July 8, 2005, the Company entered into a common stock purchase agreement with Fusion Capital Fund II, LLC, pursuant to which Fusion Capital has agreed, under certain conditions, to purchase on each trading day \$40,000 of the Company's common stock up to an aggregate of \$20.0 million over approximately a 25 month period, subject to earlier termination at the Company's discretion. In the Company's discretion, the Company may elect to sell less of the Company's common stock to Fusion Capital than the daily amount and the Company may increase the daily amount as the market price of the Company's stock increases. The purchase price of the shares of common stock will be equal to a price based upon the future market price of the common stock without any fixed discount to the market price. Fusion Capital does not have the right or the obligation to purchase shares of the Company's common stock in the event that the price of the Company's common stock is less than \$1.00.

Pursuant to the agreement with Fusion Capital, the Company has registered for public sale by Fusion Capital up to 10,795,597 shares of the Company's common stock. However, in the event that the Company decides to issue more than 10,113,278, i.e. greater than 19.99% of the outstanding shares of common stock as of the date of the agreement, the Company would first seek stockholder approval in order to be in compliance with American Stock Exchange rules. As of September 30, 2005 Fusion Capital has purchased 548,707 shares amounting to \$789,994 in gross proceeds to the Company.

In connection with entering into the above agreement with Fusion Capital, the Company, in July 2005, issued to Fusion Capital 402,798 shares of its common stock. 392,798 of these shares represented 50% of the commitment fee due Fusion Capital with the remaining 10,000 shares issued as reimbursement for expenses. An additional 392,799 shares, representing the remaining balance of the commitment, are issuable in conjunction with daily purchases of common stock by Fusion Capital. These additional commitment shares will be issued in an amount equal to the product of (x) 392,799 and (y) the Purchase Amount Fraction. The purchase price at which the shares are being purchased by Fusion Capital and the denominator of which is \$20,000,000. As of September 30, 2005, Fusion Capital was issued 16,301 shares towards this commitment fee.

### Note 10: EXECUTIVE COMPENSATION

In order to facilitate the Company's need to obtain financing and prior to our stockholders approving an amendment to our corporate charter to increase the

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number of authorized shares, Dr. Carter agreed to waive his right to exercise certain warrants and options unless and until our stockholders approved an increase in our authorized shares of Common Stock.

In October 2003, in recognition of this action as well as Dr. Carter's prior and on-going efforts relating to product development securing critically needed financing and the acquisition of a new product line, the Compensation Committee determined that Dr. Carter be awarded bonus compensation in 2003 consisting of \$196,636 and a grant of 1,450,000 stock warrants with an exercise price of \$2.20 per share. This additional compensation was reviewed by an independent valuation firm and found to be fair and reasonable within the context of total compensation paid to chief executive officers of comparable biotechnology companies.

In the quarter ended March 31, 2004, Dr. Carter was awarded an additional bonus of \$99,481 by the Compensation Committee. In addition, The Company recorded a non-cash stock compensation charge of \$1,769,000 during the first quarter 2004 resulting from warrants issued to Dr. Carter in 2003 that vested upon the execution of the second ISI asset closing on March 17, 2004. This was determined by subtracting the exercise price from the stock closing price on March 17, 2004 and multiplying the result by the number of warrants.

### Note 11: EQUITY INCENTIVE PLAN

The Equity Incentive Plan authorizes the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and other stock awards. The Equity Incentive Plan provides for awards to be made to such officers, other key employees, non-employee directors, consultants and advisors of the Company and its subsidiaries as the board of directors may select. A maximum of 8,000,000 shares of common stock is reserved for potential issuance. Unless sooner terminated, the Equity Incentive Plan will continue in effect for a period of 10 years from its effective date. As of September 30, 2005, the Company has granted 221,895 options to directors, officers and employees pursuant to the terms of this plan.

### Note 12: COMMITMENTS

In May 2005, the Company committed to purchase lab equipment related to the manufacture of Ampligen(R) raw material in the amount of approximately \$628,000. The Company paid the initial deposit of approximately \$31,400 in May 2005.

On September 9, 2005, the Company signed a Letter of Intent ("LOI") with Hollister-Stier Laboratories LLC of Spokane, Washington ("Hollister-Stier"), for the contract manufacturing of Ampligen(R). In November 2005, the Company paid \$100,000 upon executing the LOI in order to initiate the manufacturing project. The LOI shall remain in full force and effect for 90 calendar days or until a definitive agreement is reached. Based on the LOI, Hollister-Stier has agreed to formulate and bottle Ampligen(R) using raw materials received from the Company. The Company has an executed confidentiality agreement in place and; therefore, has commenced the preliminary transfer of the manufacturing technology to Hollister-Stier. The Company's decision to transfer relevant manufacturing technology absent of an executed agreement, was done in part to expedite the eventual manufacture of Ampligen(R) by Hollister-Stier. If the Company is unable to negotiate and finalize an agreement with Hollister-Stier, in a timely manner its plans to file an NDA for Ampligen(R) and, eventually, to market and sell Ampligen(R) will be delayed.

### Note 13: SUBSEQUENT EVENTS

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

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Special Note Regarding Forward-Looking Statements

Certain statements in this document constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1995 (collectively, the "Reform Act"). Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. All statements other than statements of historical fact, included in this report regarding our financial position, business strategy and plans or objectives for future operations are forward-looking statements. Without limiting the broader description of forward-looking statements above, we specifically note that statements regarding potential drugs, their potential therapeutic effect, the possibility of obtaining regulatory approval, our ability to manufacture and sell any products, market acceptance or our ability to earn a profit from sales or licenses of any drugs or our ability to discover new drugs in the future are all forward-looking in nature.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors, including but not limited to, the risk factors discussed below, which may cause the actual results, performance or achievements of Hemispherx and its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and other factors referenced in this report. We do not undertake and specifically decline any obligation to publicly release the results of any revisions which may be made to any forward-looking statement to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

### Overview

We are a biopharmaceutical company engaged in the clinical development, manufacture, marketing and distribution of new drug entities based on natural immune system enhancing technologies for the treatment of viral and immune based chronic disorders. We were founded in the early 1970s, as a contract researcher for the National Institutes of Health. After almost 30 years, we have established a strong foundation of laboratory, pre-clinical, and clinical data with respect to the development of nucleic acids to enhance the natural antiviral defense system of the human body and to aid the development of therapeutic products for the treatment of chronic diseases. We own a U.S. Food

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and Drug Administration ("FDA") approved GMP (good manufacturing practice) manufacturing facility in New Jersey, and our corporate offices are in Philadelphia, PA.

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Our flagship products include Ampligen(R) and Alferon N Injection(R). Ampligen(R) is an experimental drug undergoing clinical development for the treatment of: Myalgic Encephalomyelitis/Chronic Fatigue Syndrome ("ME/CFS" or "CFS"), and HIV. In August 2004, we completed a Phase III clinical trial ("AMP 516") treating over 230 ME/CFS patients with Ampligen(R) and are in the process of preparing a new drug application ("NDA") to be filed with the FDA. Over its developmental history, Ampligen(R) has received various designations, including Orphan Drug Product Certification (FDA), Emergency (compassionate) Cost Recovery Sales Authorization (FDA) and "promising" clinical outcome recognition based on the evaluation of certain summary clinical reports (AHRQ, Agency Health Research Quality). However to date, the FDA has determined it has yet to receive sufficient information to support the potential of Ampligen(R) to treat a serious or life threatening aspect of ME/CFS. The definition of the "seriousness of a condition", according to Guidance for Industry documents published in July, 2004 is "a matter of judgment, but generally based on its impact on such factors as survival, day-to-day functioning, or the likelihood that the disease, if left untreated, will progress from a less severe condition to a more serious one". The FDA has recently requested a "complete and audited report of the Amp 516 study to determine whether Ampligen(R) has a clinically meaningful benefit on a serious or life threatening aspect of ME/CFS in order to evaluate whether the Amp 516 study results do or do not support a "fast track designation". The FDA has also invited us to include a schedule for completion of all ME/CFS studies as well as a proposed schedule for our NDA submission. Because we believe our ME/CFS studies are complete, we intend to request a pre-NDA meeting to obtain advice on preparing and submitting our NDA. At the same time we will continue with our existing ongoing efforts to prepare a complete and audited report of our various studies, including the well-controlled Amp 516 study. We are using our best efforts to complete the requisite reports including the hiring of new staff and various recognized expert medical/regulatory consultants, but can provide no assurance as to whether the outcome of this large data collection and filing process (approximately 750 patients, treated more than 45,000 times) will be favorable or unfavorable, specifically with respect to the FDA's perspective. Also, we can provide no guidance as to the tentative date at which the compilation and filing of such data will be complete, as significant factors are outside our control including, without limitation, the ability and willingness of the independent clinical investigators to complete the requisite reports at an acceptable regulatory standard, the ability to collect overseas generated data, and the ability of Hollister-Stier facilities (or the facilities of such other manufacturer as we may retain in the event that we do not come to definitive terms with Hollister-Stier) to interface with our own New Brunswick staff/facilities to meet the manufacturing regulatory standards. In addition, Ampligen(R) is undergoing pre-clinical testing for possible treatment of avian influenza ("bird flu"). Alferon N Injection(R) is the registered trademark for our injectable formulation of natural alpha interferon, which is approved by the FDA for the treatment of genital warts. Alferon N Injection(R) is also in clinical development for treating Multiple Sclerosis and West Nile Virus ("WNV").

With the threat of an avian influenza pandemic rising and health officials warning that the virus could develop resistance to current flu treatments, the pursuit of a cost-effective and complementary treatment to existing antivirals and vaccines has become critical. This combination may permit the use of lower dosages and fewer injections of the antivirals and vaccines used to combat avian flu, thereby decreasing the cost of both immunization programs and treatment



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programs for the full-blown disease.

In antimicrobial (antibacterial) therapy, which is the best-studied clinical model, synergistic drug combinations may result in curative conditions/outcomes, often not observed when the single drugs are given alone. In the case of avian influenza where global drug supplies are presumptively in very limited supply relative to potential needs, therapeutic synergistic combinations could not only affect the disease outcome, but also the number of individuals able to access therapies.

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We recently announced that true therapeutic synergy had been observed in the interaction between Ampligen(R) and Tamiflu in the inhibition of the Avian influenza virus. Cell destruction was measured in vitro using different drug combinations. True therapeutic synergy is defined by mathematical equations which indicate that the therapeutic effect observed is in fact greater than the expected arithmetic sum of the two drugs working independently, and is referred to by pharmacologists as the "Chou/Talalay" equations developed at Johns Hopkins University.

In a recently reported study from a vaccine group in Japan, the incorporation of poly I: poly C (dsRNA) into a nasal administration of a killed influenza A preparation converted a poorly immunogenic response into a highly efficacious vaccine in protection of mice from lethal infection from human influenza A. Ampligen is a dsRNA which currently is undergoing testing in this animal model.

For more detailed information concerning our Research and Development activities, please refer to Item 2. "Management's Discussion and Analysis on Results of Operations - Research and Development Costs."

We have over 100 patents worldwide with 9 additional patents pending comprising our intellectual property. We continually review our patents rights to determine whether they have continuing value. Such review includes an analysis of the patent's ultimate revenue and profitability potential on an undiscounted cash basis to support the realizability of our respective capitalized cost. In addition, management's review addresses whether each patent continues to fit into our strategic business plans. We have a fully commercialized product (Alferon N Injection(R)), and a GMP certified manufacturing facility.

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

We outsource certain components of our research and development, manufacturing, marketing and distribution while maintaining control over the entire process through our quality assurance group and our clinical monitoring group.

Since the completion of our AMP 516 ME/CFS Phase III clinical trial for use of Ampligen(R) in the treatment of ME/CFS we have received inquiries from and, under confidentiality agreements, are having dialogue with other companies regarding marketing opportunities. No proposals or agreements have resulted from the dialogue, nor can we be assured that any proposals or agreements will result

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from these inquiries.

### Restatements

In 2003 and 2004, we entered into convertible debenture arrangements which are inherently complicated, which have been and continue to be the subject of numerous intricate accounting pronouncements and interpretations and which are not classified as normal recurring transactions. Our convertible debenture transactions were reported within our previously filed financial statements for the years ended December 31, 2003 and 2004. After an extensive review and consultation with the our independent registered public accountants and our

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audit committee, we determined that we must restate our historical financial statements for the years ended December 31, 2003 and 2004 as well as the interim financial statements for 2003, 2004, and 2005. We determined that, with respect to the accounting for the convertible debentures, the interpretation and application of EITF No. 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" was not correct at the time the convertible debentures were initially recorded and upon conversion price resets related to the convertible debentures. As a result of this determination, we restated our annual financial statements and quarterly results of operations (unaudited) included in our annual report on Form 10-K/A for the period ending December 31, 2005, which was filed on June 5, 2006 and further amended Footnote 19, Quarterly Results of Operations (unaudited), to those financials in our Annual Report on Form 10-K/A-2 for the fiscal year ended December 31, 2005, which was filed on July 31, 2006.

In addition, we restated: (i) our condensed consolidated unaudited interim financial statements for the quarter ended March 31, 2005 included in our quarterly report on Form 10-Q for the quarter ended March 31, 2006, which was filed on June 30, 2006; (ii) our condensed consolidated unaudited interim financial statements for the quarter and six months ended June 30, 2005 and 2004, contained in our June 30, 2005 quarterly report on Form 10-Q/A filed on July 31, 2006, and (iii) the condensed consolidated unaudited interim financial statements for quarter and nine months ended September 30, 2005 and 2004 included in this quarterly report on Form 10-Q/A. The modifications in the restated financial statements relate to non-cash charges that do not affect our revenues, cash flows from operations or liquidity.

- (a) Based on SEC guidance presented at the 2005 annual AICPA National Conference on current SEC and PCAOB developments, we re-evaluated our accounting for our March 2003, July 2003, October 2003, January 2004 and July 2004 Debentures (collectively, "the Debentures") to determine whether the embedded conversion options required bifurcation and fair value accounting in accordance with FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock". We concluded that bifurcation was not required and that EITF 00-27: "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27") should have been applied. We did initially apply EITF 00-27, however as part of performing an analysis on the guidelines set forth in EITF 00-27 it was determined that the initial accounting treatment for the Debentures and conversion price resets that was originally applied and reflected in the financial statements included in our Annual Reports on Form 10-K for the years ended December 31, 2004 and 2003, and in our Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 were not correctly applied and that, therefore, a restatement of our financial

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statements for the periods referenced above was required. To properly account for the initial calculation of the discount and the conversion price resets triggered upon the issuance of the October 2003 Debenture and the August 2004 Private Placement, it was determined, under guidance from EITF 00-27 that the debt discount should be restated for the Debentures. The total impact of this restatement on our statement of operations was to decrease the net loss applicable to common stockholders for the three months ended September 30, 2004 and 2005 by approximately \$2,903,000 and \$611,000, or \$0.06 and \$0.01 per share, respectively and decrease the net loss applicable to common stockholders for the nine months ended September 30, 2004 and 2005 by approximately \$7,237,000 and \$1,402,000, or \$0.17 and \$0.03 per share, respectively.

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(b) The estimation of fair value ascribed to and the accounting treatment of the investment banking fees paid to Cardinal Capital, LLC ("Cardinal") in connection with the Debenture issuances, at inception, was inaccurately reflected in the financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2004 and 2003, and our Quarterly reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 and as a result a restatement of our financial statements for the periods referenced above was required. In connection with the initial recording of the Debentures mentioned above, it was determined that the fair value of the warrants issued as investment banking fees paid to Cardinal, be accounted for as a discount to the Debentures. These investment banking fees should have been capitalized as deferred financing costs and amortized over the life of the Debentures or charged to earnings on the earlier conversion thereof. In addition, the initial calculation of the fair value of the warrants issued to Cardinal as part of the Debenture issuances was determined to be computed incorrectly at the time of issuance. The total impact of this restatement on our statement of operations was to increase the net loss applicable to common stockholders for the three months ended September 30, 2004 and 2005, by approximately \$48,000 and \$48,000 or \$0.00 and \$0.00 per share respectively, and increase in the net loss applicable to common stockholders for the nine months ended September 30, 2004 and 2005 by approximately \$233,000 and \$135,000 or \$0.00 and \$0.00 per share, respectively.

(c) The accounting treatment for certain warrants and options issued to non-employees and our interpretation and application of FASB No. 123 was not correct in 2005. The total impact of this restatement on our settlement of operations was to increase the net loss for the three months ended September 30, 2005, by approximately \$78,000 or \$0.00 per share and an increase in the net loss applicable to common stockholders for the nine months ended September 30, 2005 by approximately \$236,000 or \$0.00 per share.

(d) The accounting treatment set forth in FASB Statement No. 123, "Accounting for Stock-Based Compensation", for the issuance of the May 2009 Warrants that was originally interpreted and reflected in the financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2003 and 2004, and in our Quarterly Reports on Form 10-Q during the quarterly periods in fiscal 2003, 2004 and 2005 was not correctly applied and as a result a restatement of our financial statements for the periods referenced above was required. The Warrants issued as incese shares are registered in their other nominees will be instructed to effect the reverse split for their beneficial holders, holding the stock in street name. However, such banks, brokers or other nominees may have different procedures than registered stockholders for processing the reverse split. If you hold your share

with such a bank, broker or other nominee and if you have any questions in this regard, we encourage you to contact your nominee.

*Anti-Takeover.* Because a reverse stock split would result in an increased number of authorized but unissued shares of our common stock, it may be construed as having an anti-takeover effect, although neither the Board nor our management views this proposal in that perspective. However, the Board, subject to its fiduciary duties and applicable law, could use this increased number of authorized but unissued shares of our common stock to frustrate persons seeking to take over or otherwise gain control of us by, for example, privately placing shares of our common stock with purchasers who might side with the Board of Directors in opposing a hostile takeover bid. Shares of our common stock could also be issued to a holder that would thereafter have sufficient voting power to assure that any proposal to amend or repeal our Bylaws or certain provisions of the Certificate of Incorporation would not receive the requisite vote. Such uses of our common stock could render more difficult, or discourage, an attempt to acquire control of us if such transaction were opposed by the Board. The Company does not have any current plans, proposals or arrangements, written or otherwise, to engage in any business or investment opportunity which might result in the issuance of the authorized but unissued shares of our common stock not already reserved for issuance upon exercise of currently outstanding RSUs, options and warrants.

#### **Exchange of Shares**

On or after the effectiveness of the reverse stock split, the Company will mail to each stockholder a letter of transmittal. A stockholder will be able to receive his shares of common stock to be issued upon the reverse stock split only by transmitting to the Company's transfer agent such stockholder's stock certificate(s), if any, for shares of common stock outstanding prior to the reverse stock split, together with the properly executed and completed letter of transmittal and such evidence of ownership of such shares as the Company may require. Stockholders will not receive certificates for shares of common stock to be issued upon the reverse stock split unless and until the certificates representing their shares of common stock outstanding prior to the reverse stock split are surrendered.

**STOCKHOLDERS SHOULD NOT FORWARD THEIR CERTIFICATES TO THE TRANSFER AGENT UNTIL THE LETTER OF TRANSMITTAL IS RECEIVED AND SHOULD SURRENDER THEIR STOCK CERTIFICATES ONLY WITH THEIR EXECUTED AND COMPLETED LETTERS OF TRANSMITTAL.**

There will be no service charges payable by the stockholders of the Company in connection with the exchange of their stock certificates.

If you hold registered shares in a book-entry form, you do not need to take any action to receive your post-reverse split shares. A transaction statement will automatically be sent to your address of record indicating the number of shares you hold.

**Material United States Federal Income Tax Consequences of the Reverse Stock Split**

The following is a summary of the material United States federal income tax considerations of the reverse stock split applicable to holders of our shares of common stock. This summary is based upon existing United States federal income tax law, which is subject to differing interpretations or change (possibly with retroactive effect). Stockholders are urged to consult their own tax advisors regarding the United States federal income tax considerations of the reverse stock split, as well as the effects of state, local, and non-United States tax laws.

A stockholder should not recognize any gain or loss for United States federal income tax purposes as a result of the reverse stock split. In general, the aggregate tax basis of the shares of common stock held immediately after the reverse stock split should equal the aggregate adjusted tax basis of the shares of common stock held immediately prior to the reverse stock split, and the holding period of the shares of common stock should be the same as the holding period of the shares of common stock held immediately prior to the reverse stock split.

**Accounting Matters**

The reverse stock split will not affect the per share par value of our common stock. As a result, as of the effective time of the reverse stock split, the stated capital on our balance sheet attributable to our common stock will be reduced proportionately, and the additional paid-in capital amount will be credited with the amount by which the stated capital is reduced. The per share net income or loss and net book value of our common stock will be restated to reflect the reduced number of shares of our common stock outstanding.

**Proposal 3: Proposal to define the term Continuing Directors that is used but not currently defined in the Certificate of Incorporation.**

In this proposal, the Company is seeking approval to amend its Certificate of Incorporation to define the term Continuing Directors that is used but not currently defined in the Certificate of Incorporation.

**Background of, and Reasons for, the Inclusion of the Definition of Continuing Directors in the Certificate of Incorporation**

Certain provisions of the Certificate of Incorporation use the defined term Continuing Directors. As part of the Certificate of Amendment to the Certificate of Incorporation previously approved by the Company's stockholders and filed with the Delaware Secretary of State on June 19, 2008, certain provisions of the Certificate of Incorporation containing the definition of Continuing Directors were deleted. This proposal adds back into the Certificate of Incorporation, and updates the definition that was previously deleted, the definition of Continuing Directors so that it is clear that all current directors are Continuing Directors under the Certificate of Incorporation. The full text of the proposed amendment is as follows:

THIRD: Article FOURTEENTH shall be amended to read in its entirety as set forth below:

1. [INTENTIONALLY OMITTED]
2. [INTENTIONALLY OMITTED]
3. For the purpose of this Certificate of Incorporation, Continuing Directors means directors elected to the Board of the Corporation as of April 24, 2009 and any new directors whose election by the Corporation's Board of Directors or whose nomination for election by the stockholders of the Corporation was approved by a vote of a majority of the directors then still in office.

**Proposal 4: Proposal to delete Article Sixteenth of the Certificate of Incorporation that sets forth higher approval thresholds than those required under the Delaware General Corporation Law with respect to certain amendments of the Certificate of Incorporation.**

In this proposal, the Company is seeking approval to amend its Certificate of Incorporation to delete Article Sixteenth of the Certificate of Incorporation in its entirety.

**Background of, and Reasons for, the deletion of Article Sixteenth of the Certificate of Incorporation**

Article Sixteenth of the Company's current Certificate of Incorporation requires the affirmative vote of seventy-five percent (75%) of the outstanding voting power of the Company and shares representing a majority of the outstanding voting power of the Company held by disinterested stockholders to amendments to Articles Fourth through Sixteenth of the Certificate of Incorporation. Eliminating this Article as proposed will make it easier for the stockholders (including Gores) to amend the Certificate of Incorporation in the future because the affirmative vote of a simple majority (as opposed to 75%) of the Company's outstanding voting power would be all that is required to approve such an amendment. As described elsewhere in this proxy statement, Gores by itself would constitute a simple majority.

The following is the complete text of Article Sixteenth:

SIXTEENTH: Amendment to Articles Fourth through Sixteenth.

The provisions set forth in this Article Sixteenth and in Articles Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Fourteenth and Fifteenth here of may not be repealed, rescinded, altered or amended in any respect, and no other provision or provisions may be adopted which impair(s) in any respect the operation or effect of any such provision, except by the affirmative vote of the holders of not less than seventy-five percent (75%) of the voting power of all outstanding shares of Voting Stock regardless of class and voting together as a single voting class, and, where such action is proposed by an Interested Stockholder or by any Associate or Affiliate of an Interested Stockholder, the affirmative vote of the holders of a majority of the voting power of all outstanding shares of Voting Stock, regardless of class and voting together as a single class, other than shares held by the Interested Stockholder, which proposed (or the Affiliate or Association of which proposed) such action, or any Affiliate or Associate of such Interested Stockholder; provided, however, that where such action is approved by a majority of the continuing directors, the affirmative vote of a majority of the voting power of all outstanding shares of Voting Stock, regardless of class and voting together as a single voting class, shall be required for approval of such action.

**Proposal 5: Proposal to delete the provision in Article Seventeenth relating to Article Sixteenth should the proposal to delete Article Sixteenth as set forth in Proposal 4 be approved.**

In this proposal, the Company is seeking approval to amend its Certificate of Incorporation to delete the provision in Article Seventeenth relating to Article Sixteenth should the proposal to delete Article Sixteenth as set forth in Proposal 4 be approved.

**Background of, and Reasons for, the deletion of the provision in Article Seventeenth relating to Article Sixteenth of the Certificate of Incorporation**

The second sentence of Article Seventeenth of the Company's current Certificate of Incorporation requires that amendments to Articles Fourth through Sixteenth of the Certificate of Incorporation be approved in accordance with Article Sixteenth. This sentence is extraneous if Article Sixteenth is deleted per Proposal 4, above.

The following is the complete text of Article Seventeenth:

**SEVENTEENTH: Other Amendments.**

The Corporation reserves the right to adopt, repeal, rescind, alter or amend in any respect any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by applicable law, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the preceding sentence, the provisions set forth in Articles Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Fourteenth, Fifteenth, and Sixteenth may not be repealed, rescinded, altered or amended in any respect, and no other provision or provisions may be adopted which impair(s) in any respect the operation or effect of any such provision, unless such action is approved as specified in Article Sixteenth hereof.

**Dissenters Rights**

Dissenting stockholders have no appraisal rights under Delaware law or under the Certificate of Incorporation or Bylaws in connection with any of the Charter Amendments.

**Interests of Officers and Directors in the Charter Amendments**

In considering the Charter Amendments stockholders should be aware that each of Messrs. Bronstein, Gimbel, Honour, Nold, Sherwood, Stone and Weingarten own an economic interest in Gores Radio, directly or indirectly, by virtue of the current or former association with Gores. Gores Radio owns shares of our preferred stock and our common stock, including shares of preferred stock that will automatically convert into common stock upon the effectiveness of the Charter Amendments. Each of Messrs. Bronstein, Gimbel, Honour, Nold, Sherwood, Stone and Weingarten disclaims beneficial ownership of the securities of the Company owned by Gores Radio, except to the extent of any pecuniary interest therein.

**Vote Required and Board's Recommendation**

The affirmative vote of the stockholders representing (i) a majority of the Company's voting securities (represented in person or by proxy at the meeting) will be required to approve Proposal 1 and (ii) not less than seventy-five percent (75%) of the Company's voting securities (represented in person or by proxy at the meeting) will be required to approve Proposals 2-5.

**Each of (i) the Independent Committee, and (ii) the Company's entire Board, has declared advisable and approved by a vote of 7-0-0 of the Independent Committee and 10-0-0 of the full Board, each of the Charter Amendments as being in the best interests of the Company and the stockholders and recommends a vote FOR each of Proposals 1 through 5.**

**PROPOSAL 6:  
ADJOURNMENT OF THE SPECIAL MEETING**

In the event that the number of shares of our voting securities present in person or represented by proxy at the special meeting is insufficient to approve Proposals 1 through 5 described in this proxy statement, the Company may move to adjourn or postpone the special meeting in order to enable the Board to solicit additional proxies in favor of the approval of such proposals.

**Vote Required and Board's Recommendation**

Approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the votes cast at the special meeting.

**The Board recommends as being in the best interests of the Company and the stockholders a vote FOR the adjournment proposal.**



### **OTHER MATTERS**

**The Board of Directors does not intend to bring other matters before the meeting except items required to conduct the meeting. On any matter properly brought before the meeting by the Board or by others, the persons named as proxies in the accompanying proxy, or their substitutes will vote as recommended by the Board of Directors or, if no recommendation is given, at their discretion.**

### **SOLICITATION**

The cost of preparing, assembling, printing and mailing this proxy statement and the accompanying proxy card will be borne by the Company. The Company has requested banks and brokers to solicit their customers who are beneficial owners of common stock listed of record in the names of the banks and brokers, and will reimburse these banks and brokers for the reasonable out-of-pocket expenses of their solicitations. The original solicitation of proxies by mail may be supplemented by telephone, facsimile, electronic mail or other electronic method, and personal solicitation by officers and other regular employees of the Company, but no additional compensation will be paid on account of these additional activities.

### **STOCKHOLDER PROPOSALS FOR 2009**

Any stockholder proposal intended for inclusion in the proxy material for the Annual Meeting of Stockholders to be held in 2009 had to have been received by the Company by April 20, 2009 to be eligible for inclusion in such proxy material. Proposals should be addressed to the attention of the Chief Financial Officer, Westwood One, Inc., 40 West 57th Street, 5th Floor, New York, NY 10019. Proposals must comply with the proxy rules of the SEC relating to stockholder proposals in order to be included in the proxy materials. Additionally, the Company's proxy holders for the Company's 2009 Annual Meeting of Stockholders will have discretionary authority to vote on any stockholder proposal that is presented at such annual meeting but that is not included in the Company's proxy materials, unless notice of such proposal is received by the Secretary of the Company on or before July 4, 2009.

### **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, proxy statements or other information that we file with the SEC at its Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our public filings are also available to the public from document retrieval services and the Internet website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

Any person, including any beneficial owner, to whom this proxy statement is delivered may request copies of proxy statements, reports or other information concerning us filed with the SEC, without charge, by written or telephonic request directed to us at Westwood One, Inc., 40 West 57th Street, 5th Floor, New York, NY 10019, (212) 641-2000, or from the SEC through the SEC's website at [www.sec.gov](http://www.sec.gov).

No persons have been authorized to give any information or to make any representations other than those contained in this proxy statement and, if given or made, such information or representations must not be relied upon as having been authorized by us or any other person. This proxy statement is dated June 4, 2009. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date, and the mailing of this proxy statement to stockholders shall not create any implication to the contrary.

By Order of the Board of Directors

David Hillman  
*Secretary*  
New York, New York  
June 4, 2009

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**Electronic Voting Instructions**  
**You can vote by Internet or telephone!**  
**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on June 26, 2009.**

**Vote by Internet**

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Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

**Special Meeting Proxy Card**

C0123456789

12345

**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proposals** The Board of Directors recommends a vote FOR Proposals 1, 2, 3, 4, 5 and 6.

	<b>For</b>	<b>Against</b>	<b>Abstain</b>		<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>+</b>
1. Amendment of the Company's Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 300,000,000 to 5,000,000,000	o	o	o	4. Amendment of the Company's Restated Certificate of Incorporation to delete Article Sixteenth	o	o	o	
2. Amendment of the Company's Restated Certificate of Incorporation to effect a reverse stock split of our outstanding common stock at a ratio of 200 to 1	o	o	o	5. Amendment of the Company's Restated Certificate of Incorporation to delete the provision in Article Seventeenth relating to Article Sixteenth should Proposal 4 be approved	o	o	o	
3. Amendment of the Company's Restated Certificate of Incorporation to define the term Continuing Directors that is used but not currently defined	o	o	o	6. Adjournment of the special meeting, if necessary, to solicit additional proxies for approval of proposals 1, 2, 3, 4 and 5.	o	o	o	

**B Non-Voting Items**

**Change of Address** Please print new address below.

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IMPORTANT: In signing this proxy, please sign your name or names on the signature line in the same way as indicated on this proxy. When signing as an attorney, executor, administrator, trustee or guardian, please give your full title as such. EACH JOINT OWNER MUST SIGN.

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**Proxy Westwood One, Inc.**

**Proxy for Special Meeting of Shareholders for Holders of Common Stock  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF  
WESTWOOD ONE, INC.**

The undersigned shareholder of Westwood One, Inc., a Delaware corporation (the Company), hereby appoints Roderick M. Sherwood, III and David Hillman as the undersigned's attorneys, agents and proxies, each with full power of substitution to attend and act for the undersigned at the Special Meeting of Shareholders of the Company to be held on June 26, 2009 at 10:00 a.m., Pacific Time, at the Company's offices located at 8965 Lindblade Street, Culver City, CA 90232-2689 and any adjournments thereof, and to represent and vote as designated on the reverse side all of the shares of Common Stock of the Company that the undersigned would be entitled to vote if personally present at the Special Meeting. Whether or not direction is made, this proxy, when properly executed, will be voted as recommended by the Board of Directors or, if no recommendation is given, at the discretion of the proxy holders upon such other business as may properly come before the Special Meeting of Shareholders or any adjournment or postponement thereof.

**If no choice is specified on the reverse side, the proxy will be voted as to all shares of the undersigned FOR proposals 1, 2, 3, 4, 5 and 6.**

The proxies, and each of them, shall have all the powers that the undersigned would have if acting in person. The undersigned hereby revokes any other proxy to vote at the Special Meeting and hereby ratifies and confirms all that the proxies, and each of them, may lawfully do by virtue hereof. With respect to matters not known at the time of the solicitation of this proxy, the proxies are authorized to vote in accordance with their discretion.

**PLEASE MARK, SIGN, DATE AND RETURN YOUR PROXY PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED.**

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**Proposals** The Board of Directors recommends a vote FOR Proposals 1, 2, 3, 4, 5 and 6.

	<b>For</b>	<b>Against</b>	<b>Abstain</b>		<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>+</b>
1. Amendment of the Company's Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 300,000,000 to 5,000,000,000	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	4. Amendment of the Company's Restated Certificate of Incorporation to delete Article Sixteenth	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
2. Amendment of the Company's Restated Certificate of Incorporation to effect a reverse stock split of our outstanding common stock at a ratio of 200 to 1	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	5. Amendment of the Company's Restated Certificate of Incorporation to delete the provision in Article Seventeenth relating to Article Sixteenth should Proposal 4 be approved	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
3. Amendment of the Company's Restated Certificate of Incorporation to define the term Continuing Directors that is used but not currently defined	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	6. Adjournment of the special meeting, if necessary, to solicit additional proxies for approval of proposals 1, 2, 3, 4 and 5.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	

**B Non-Voting Items**

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**Proxy Westwood One, Inc.**

**Proxy for Special Meeting of Shareholders for Holders of Class B Stock  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF  
WESTWOOD ONE, INC.**

The undersigned shareholder of Westwood One, Inc., a Delaware corporation (the Company), hereby appoints Roderick M. Sherwood, III and David Hillman as the undersigned's attorneys, agents and proxies, each with full power of substitution to attend and act for the undersigned at the Special Meeting of Shareholders of the Company to be held on June 26, 2009 at 10:00 a.m., Pacific Time, at the Company's offices located at 8965 Lindblade Street, Culver City, CA 90232-2689 and any adjournments thereof, and to represent and vote as designated on the reverse side all of the shares of Class B Stock of the Company that the undersigned would be entitled to vote if personally present at the Special Meeting. Whether or not direction is made, this proxy, when properly executed, will be voted as recommended by the Board of Directors or, if no recommendation is given, at the discretion of the proxy holders upon such other business as may properly come before the Special Meeting of Shareholders or any adjournment or postponement thereof.

**If no choice is specified on the reverse side, the proxy will be voted as to all shares of the undersigned FOR proposals 1, 2, 3, 4, 5 and 6.**

The proxies, and each of them, shall have all the powers that the undersigned would have if acting in person. The undersigned hereby revokes any other proxy to vote at the Special Meeting and hereby ratifies and confirms all that the proxies, and each of them, may lawfully do by virtue hereof. With respect to matters not known at the time of the solicitation of this proxy, the proxies are authorized to vote in accordance with their discretion.

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	<b>For</b>	<b>Against</b>	<b>Abstain</b>		<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>+</b>
1. Amendment of the Company's Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 300,000,000 to 5,000,000,000	o	o	o	4. Amendment of the Company's Restated Certificate of Incorporation to delete Article Sixteenth	o	o	o	
2. Amendment of the Company's Restated Certificate of Incorporation to effect a reverse stock split of our outstanding common stock at a ratio of 200 to 1	o	o	o	5. Amendment of the Company's Restated Certificate of Incorporation to delete the provision in Article Seventeenth relating to Article Sixteenth should Proposal 4 be approved	o	o	o	
3. Amendment of the Company's Restated Certificate of Incorporation to define the term Continuing Directors that is used but not currently defined	o	o	o	6. Adjournment of the special meeting, if necessary, to solicit additional proxies for approval of proposals 1, 2, 3, 4 and 5.	o	o	o	

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**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proxy Westwood One, Inc.**

**Proxy for Special Meeting of Shareholders for Holders of 7.5% Series A-1 Convertible Preferred Stock  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF  
WESTWOOD ONE, INC.**

The undersigned shareholder of Westwood One, Inc., a Delaware corporation (the Company), hereby appoints Roderick M. Sherwood, III and David Hillman as the undersigned's attorneys, agents and proxies, each with full power of substitution to attend and act for the undersigned at the Special Meeting of Shareholders of the Company to be held on June 26, 2009 at 10:00 a.m., Pacific Time, at the Company's offices located at 8965 Lindblade Street, Culver City, CA 90232-2689 and any adjournments thereof, and to represent and vote as designated on the reverse side all of the shares of 7.5% Series A-1 Convertible Preferred Stock of the Company that the undersigned would be entitled to vote if personally present at the Special Meeting. Whether or not direction is made, this proxy, when properly executed, will be voted as recommended by the Board of Directors or, if no recommendation is given, at the discretion of the proxy holders upon such other business as may properly come before the Special Meeting of Shareholders or any adjournment or postponement thereof.

**If no choice is specified on the reverse side, the proxy will be voted as to all shares of the undersigned FOR proposals 1, 2, 3, 4, 5 and 6.**

The proxies, and each of them, shall have all the powers that the undersigned would have if acting in person. The undersigned hereby revokes any other proxy to vote at the Special Meeting and hereby ratifies and confirms all that the proxies, and each of them, may lawfully do by virtue hereof. With respect to matters not known at the time of the solicitation of this proxy, the proxies are authorized to vote in accordance with their discretion.

**PLEASE MARK, SIGN, DATE AND RETURN YOUR PROXY PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED.**

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**Electronic Voting Instructions**  
**You can vote by Internet or telephone!**  
**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on June 26, 2009.**

**Vote by Internet**

Log on to the Internet and go to [www.envisionreports.com/WON](http://www.envisionreports.com/WON)

Follow the steps outlined on the secured website.

**Vote by telephone**

Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

**Special Meeting Proxy Card**

**C0123456789**

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**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proposals** The Board of Directors recommends a vote FOR Proposals 1, 2, 3, 4, 5 and 6.

	<b>For</b>	<b>Against</b>	<b>Abstain</b>		<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>+</b>
1. Amendment of the Company's Restated Certificate of Incorporation to increase the number of authorized shares of our common stock from 300,000,000 to 5,000,000,000	o	o	o	4. Amendment of the Company's Restated Certificate of Incorporation to delete Article Sixteenth	o	o	o	
2. Amendment of the Company's Restated Certificate of Incorporation to effect a reverse stock split of our outstanding common stock at a ratio of 200 to 1	o	o	o	5. Amendment of the Company's Restated Certificate of Incorporation to delete the provision in Article Seventeenth relating to Article Sixteenth should Proposal 4 be approved	o	o	o	
3. Amendment of the Company's Restated Certificate of Incorporation to define the term Continuing Directors that is used but not currently defined	o	o	o	6. Adjournment of the special meeting, if necessary, to solicit additional proxies for approval of proposals 1, 2, 3, 4 and 5.	o	o	o	

**B Non-Voting Items**

**Change of Address** Please print new address below.

**Authorized Signatures** This section must be completed for your vote to be counted. **Date and Sign Below**

IMPORTANT: In signing this proxy, please sign your name or names on the signature line in the same way as indicated on this proxy. When signing as an attorney, executor, administrator, trustee or guardian, please give your full title as such. EACH JOINT OWNER MUST SIGN.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep  
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**Proxy Westwood One, Inc.**

**Proxy for Special Meeting of Shareholders for Holders of 8.0% Series B Convertible Preferred Stock  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF  
WESTWOOD ONE, INC.**

The undersigned shareholder of Westwood One, Inc., a Delaware corporation (the Company), hereby appoints Roderick M. Sherwood, III and David Hillman as the undersigned's attorneys, agents and proxies, each with full power of substitution to attend and act for the undersigned at the Special Meeting of Shareholders of the Company to be held on June 26, 2009 at 10:00 a.m., Pacific Time, at the Company's offices located at 8965 Lindblade Street, Culver City, CA 90232-2689 and any adjournments thereof, and to represent and vote as designated on the reverse side all of the shares of 8.0% Series B Convertible Preferred Stock of the Company that the undersigned would be entitled to vote if personally present at the Special Meeting. Whether or not direction is made, this proxy, when properly executed, will be voted as recommended by the Board of Directors or, if no recommendation is given, at the discretion of the proxy holders upon such other business as may properly come before the Special Meeting of Shareholders or any adjournment or postponement thereof.

**If no choice is specified on the reverse side, the proxy will be voted as to all shares of the undersigned FOR proposals 1, 2, 3, 4, 5 and 6.**

The proxies, and each of them, shall have all the powers that the undersigned would have if acting in person. The undersigned hereby revokes any other proxy to vote at the Special Meeting and hereby ratifies and confirms all that the proxies, and each of them, may lawfully do by virtue hereof. With respect to matters not known at the time of the solicitation of this proxy, the proxies are authorized to vote in accordance with their discretion.

**PLEASE MARK, SIGN, DATE AND RETURN YOUR PROXY PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED.**