

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-32587

PHARMATHENE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-2726770

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

One Park Place, Suite 450, Annapolis, Maryland

(Address of principal executive offices)

21401

(Zip Code)

(410) 269-2600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of the registrant's Common Stock, par value \$0.0001 per share, outstanding as of November 4, 2015 was 64,451,334.

PHARMATHENE, INC.

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Item 1. Financial Statements

PHARMATHENE, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>September 30</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 17,389,409	\$ 18,643,351
Billed accounts receivable	-	110,656
Unbilled accounts receivable	659,663	297,431
Prepaid expenses and other current assets	196,478	199,194
Total current assets	<u>18,245,550</u>	<u>19,250,632</u>
Property and equipment, net	248,270	325,772
Other long-term assets and deferred costs	53,384	53,384
Goodwill	2,348,453	2,348,453
Total assets	<u>\$ 20,895,657</u>	<u>\$ 21,978,241</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 306,172	\$ 391,396
Accrued expenses and other liabilities	1,453,123	1,195,412
Accrued restructuring expenses	619,119	-
Short-term debt	-	746,146
Other short-term liabilities	-	70,326
Current portion of derivative instruments	2,355	178,509
Total current liabilities	<u>2,380,769</u>	<u>2,581,789</u>
Accrued restructuring expenses - long term	184,018	-
Other long-term liabilities	431,015	493,137
Derivative instruments, less current portion	227,898	629,170
Total liabilities	<u>3,223,700</u>	<u>3,704,096</u>
Stockholders' equity:		
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 64,358,834 and 63,603,303 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	6,436	6,360
Additional paid-in-capital	240,151,146	238,780,633
Accumulated other comprehensive loss	-	(229,528)
Accumulated deficit	(222,485,625)	(220,283,320)
Total stockholders' equity	<u>17,671,957</u>	<u>18,274,145</u>
Total liabilities and stockholders' equity	<u>\$ 20,895,657</u>	<u>\$ 21,978,241</u>

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

PHARMATHENE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Contract revenue	\$ 1,155,839	\$ 962,451	\$ 9,374,155	\$ 8,363,909
Operating expenses:				
Research and development	1,125,865	1,728,929	3,962,019	7,528,616
General and administrative	1,231,035	3,192,427	5,246,396	8,289,788
Restructuring expense	422,482	-	2,519,273	-
Depreciation	35,005	37,125	108,798	113,272
Total operating expenses	<u>2,814,387</u>	<u>4,958,481</u>	<u>11,836,486</u>	<u>15,931,676</u>
Loss from operations	\$ (1,658,548)	\$ (3,996,030)	\$ (2,462,331)	\$ (7,567,767)
Other income (expense):				
Interest expense, net	(9,888)	(46,930)	(48,492)	(173,356)
Realization of cumulative translation adjustment	-	-	(229,192)	-
Change in fair value of derivative instruments	359,796	(560,487)	577,426	464,703
Other income (expense)	(691)	80	6,594	(1,470)
Total other income (expense)	<u>349,217</u>	<u>(607,337)</u>	<u>306,336</u>	<u>289,877</u>
Net loss before income taxes	(1,309,331)	(4,603,367)	(2,155,995)	(7,277,890)
Income tax provision	(15,437)	(25,068)	(46,310)	(48,105)
Net loss	<u>\$ (1,324,768)</u>	<u>\$ (4,628,435)</u>	<u>\$ (2,202,305)</u>	<u>\$ (7,325,995)</u>
Basic and diluted net loss per share	\$ (0.02)	\$ (0.08)	\$ (0.03)	\$ (0.13)
Weighted average shares used in calculation of basic and diluted net loss per share	64,187,618	58,952,731	63,858,500	55,577,550

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

PHARMATHENE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net loss	\$ (1,324,768)	\$ (4,628,435)	\$ (2,202,305)	\$ (7,325,995)
Other comprehensive income (loss):				
Foreign currency translation adjustments	-	(5,869)	336	(7,162)
Realization of cumulative translation adjustment included in net loss	-	-	229,192	-
Comprehensive loss	\$ (1,324,768)	\$ (4,634,304)	\$ (1,972,777)	\$ (7,333,157)

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

PHARMATHENE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
	2015	2014
Operating activities		
Net loss	\$ (2,202,305)	\$ (7,325,995)
Adjustments to reconcile net loss to net cash used in operating activities:		
Realization of cumulative translation adjustment	229,192	-
Share-based compensation expense	426,988	1,172,703
Change in fair value of derivative instruments	(577,426)	(464,703)
Depreciation expense	108,798	113,272
Deferred income taxes	46,310	48,105
Non-cash interest expense	(51,820)	68,130
Impairment of property and equipment	36,981	-
Gain on the disposal of property and equipment	(7,600)	(5,393)
Changes in operating assets and liabilities:		
Billed accounts receivable	110,656	1,427,113
Unbilled accounts receivable	(362,232)	1,895,858
Prepaid expenses and other current assets	(9,602)	23,869
Accounts payable	(85,175)	(846,090)
Accrued restructuring expenses	800,769	-
Accrued expenses and other liabilities	149,438	(773,517)
Deferred revenue	-	(284,937)
Net cash used in operating activities	<u>(1,387,028)</u>	<u>(4,951,585)</u>
Investing activities		
Purchases of property and equipment	(68,277)	(92,269)
Proceeds from the sale of property and equipment	7,600	8,000
Net cash used in investing activities	<u>(60,677)</u>	<u>(84,269)</u>
Financing activities		
Repayment of debt	(750,007)	(749,997)
Net repayment of revolving credit agreement	-	(1,091,740)
Net proceeds from exercise of warrants	-	683,325
Proceeds from issuance of common stock, including exercise of stock options, net of offering costs	943,601	15,341,264
Net cash provided by financing activities	<u>193,594</u>	<u>14,182,852</u>
Effects of exchange rates on cash	169	(7,585)
(Decrease) increase in cash and cash equivalents	<u>(1,253,942)</u>	<u>9,139,413</u>
Cash and cash equivalents, at beginning of period	18,643,351	10,480,979
Cash and cash equivalents, at end of period	<u>\$ 17,389,409</u>	<u>\$ 19,620,392</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 108,134	\$ 105,916

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

PHARMATHENE, INC.

Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2015

Note 1 – Business, Liquidity and Organization

Since 2001, PharmAthene, Inc. ("we", the "Company") has been a biodefense company engaged in the development of next generation medical countermeasures against biological and chemical threats. During this time, we have devoted substantial effort and resources to the development of the prevention and treatment of anthrax infection and nerve agent poisoning.

On March 9, 2015, our Board of Directors approved our realignment plan (the "Realignment Plan") with the goal of preserving and maximizing, for the benefit of our stockholders, the value of any proceeds from our litigation with SIGA Technologies, Inc. ("SIGA") and our existing biodefense assets. The plan eliminated approximately two-thirds of our workforce and aimed to preserve sufficient cash and cash equivalents to finance our continued operations through a period of time that is expected to extend beyond the adjudication of SIGA's appeal. We intend to maintain sufficient resources and personnel so that we can seek partners, co-developers or acquirers for our biodefense programs and continue to execute under our government contract with the National Institutes of Allergy and Infectious Diseases ("NIAID"). The Company estimates total severance payments to executives and non-executives in connection with the Realignment Plan to amount to approximately \$2 million (all of which was expensed as of September 30, 2015), with substantially all such severance expenses expected to be paid in 2015. Historically, the Company has performed under government contracts and grants and raised funds from investors (including additional debt and equity issued in 2015 and 2014) to sustain our operations. The Company has spent substantial funds in the research, development, clinical and preclinical testing in excess of revenues, to support the Company's product candidates and to market and sell its products. We have incurred losses in each year since inception, and have an accumulated deficit of \$222.5 million. If we continue to incur losses and are not able to raise adequate funds to cover those losses, we may be required to cease operations.

As of September 30, 2015, our cash balance was \$17.4 million, our unbilled accounts receivable balance was \$0.7 million, and our current liabilities were \$2.4 million. As of September 30, 2015, we had approximately \$3.0 million of remaining availability under our controlled equity offering arrangement, although we did not sell any shares of common stock under such facility during the three and nine months ended September 30, 2015 (see Note 6 – *Financing Transactions – Controlled Equity Offering*). We believe, based on the operating cash requirements and capital expenditures expected for 2015, the Company's cash on hand at September 30, 2015 is adequate to fund operations through at least the end of 2016. On September 3, 2015, following a payment of \$81,347, representing a \$75,000 final payment fee pursuant to the March 30, 2012 Loan Agreement, \$10 outstanding principal balance, \$208 accrued interest, and \$6,129 legal fees of the lender, we satisfied in full our remaining obligation under our March 2012 Loan Agreement with General Electric Capital Corporation ("GE Capital"), as discussed further in Note 6- *Financing Transactions*.

On July 6, 2015, PharmAthene signed a license agreement with ImmunoVaccine for the exclusive use of the DepoVaxTM vaccine platform, to develop an anthrax vaccine utilizing PharmAthene's recombinant protective antigen ("rPA"). ImmunoVaccine is a clinical-stage vaccine development company located in Halifax, Nova Scotia. PharmAthene will reimburse up to \$210,000 to ImmunoVaccine for their efforts in developing this vaccine. In addition, ImmunoVaccine will receive annual payments of \$200,000, and additional payments for the achievement of certain milestones relating to contracting with the U.S. Government as well as achieving certain clinical/regulatory and commercial milestones, and achievement of sales targets. Additionally, ImmunoVaccine will receive a royalty on sales related to the use of DepoVaxTM.

On September 2, 2015, the Company entered into a sublease agreement with a third party with respect to a portion of its leased office space in Annapolis, Maryland. See Note 4 - *Commitments and Contingencies - Leases*.

On September 10, 2015, NIAID exercised the first option under our September 2014 contract for the development of a next generation lyophilized anthrax vaccine. The option provides additional funding of approximately \$2.3 million and an extension of the period of performance through September 30, 2016.

We can offer no assurances that we have correctly estimated the resources or personnel necessary to seek partners, co-developers or acquirers for our biodefense programs or execute under our NIAID contract. If a larger workforce or one with a different skillset is ultimately required to implement our Realignment Plan successfully, we may be unable to maximize the value of the SIGA litigation and our existing biodefense assets. In addition, in connection with the Realignment Plan, executive officers who have served the Company for many years have been terminated, and, with the exception of Mr. Richman's continued service on the Board, will no longer be available to guide the Company. We also cannot assure you that we have accurately estimated the cash and cash equivalents necessary to finance our operations until SIGA's appeal has been adjudicated and we have received SIGA's payment, if any. If revenues from our NIAID contract are less than we anticipate, if operating expenses exceed our expectations or cannot be adjusted accordingly, or if we have underestimated the time it will take for us to prevail in SIGA's appeal, or enforce payment of or collect any damages award from SIGA, or if we do not prevail on appeal, then our business, results of operations, financial condition and cash flows will be materially and adversely affected.

In addition, we may raise additional capital to strengthen our financial position. There can be no assurances that we would be successful in raising additional funds on acceptable terms or at all. Additional sales of common stock may be made at prices that are dilutive to existing stockholders.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

Our unaudited condensed consolidated financial statements include the accounts of PharmAthene, Inc. and its wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation. Our unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly our financial position, results of operations and cash flows. The condensed consolidated balance sheet at December 31, 2014 has been derived from audited consolidated financial statements at that date. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission ("SEC"). We believe that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited condensed consolidated financial statements are read in conjunction with the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC. We currently operate in one business segment.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Our unaudited condensed consolidated financial statements include significant estimates for our share-based compensation and the value of our financial instruments, among other things. Because of the use of estimates inherent in the financial reporting process, actual results could differ significantly from those estimates.

Foreign Currency Translation

The functional currency of our wholly-owned foreign subsidiary, PharmAthene UK Limited, is its local currency. Assets and liabilities of our foreign subsidiary are translated into United States dollars based on the exchange rate at the end of the reporting period. Income and expense items are translated at the weighted average exchange rates prevailing during the reporting period. Translation adjustments for subsidiaries that have not been sold, substantially liquidated or otherwise disposed of, are accumulated in other comprehensive loss, a component of stockholders' equity. Foreign currency translation adjustments are the sole component of accumulated other comprehensive loss at December 31, 2014. Transaction gains or losses are included in the determination of net income (loss).

In June 2015, we substantially completed the liquidation of PharmAthene UK Limited, which we had acquired in 2008. Prior to substantially liquidating the UK subsidiary, currency fluctuations were recorded as foreign currency translation adjustments, a component of other comprehensive income. As a result of the substantially completed liquidation, we realized an approximate loss of \$0.2 million in our condensed consolidated statements of operations, which represents the amount of previously recorded foreign currency translation adjustments related to our UK subsidiary.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market value and include investments in money market funds with financial institutions which are stated at market value. The Company maintains cash balances with financial institutions in excess of insured limits. The Company does not anticipate any losses on such cash balances.

Significant Customers and Accounts Receivable

Our primary customers are NIAID, and the Biomedical Advanced Research and Development Authority (“BARDA”). As of September 30, 2015, the Company’s unbilled accounts receivable balance was comprised of receivables from NIAID. The Company’s receivable balances (both billed and unbilled) as of December 31, 2014 were comprised of receivables from NIAID and BARDA.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net identifiable assets associated with acquisitions. We review the recoverability of goodwill annually at the end of our fiscal year and whenever events or changes in circumstances indicate that it is more likely than not that impairment exists. Recoverability of goodwill is reviewed by comparing our market value (as measured by our stock price multiplied by the number of outstanding shares as of the end of the year) to the net book value of our equity. If our market value exceeds our net book value, no further analysis is required. We completed our annual impairment assessment of goodwill on December 31, 2014 and determined that there was no impairment as of that date.

Changes in our business strategy or adverse changes in market conditions could impact the impairment analyses and require the recognition of an impairment charge equal to the excess of the carrying value over its estimated fair value.

Restructuring Expense

As a result of the Realignment Plan, we recorded approximately \$2.1 million of restructuring expense during the nine months ended September 30, 2015, including approximately \$2.0 million of related severance expense, and the remainder being legal and other employee related expenses. Additionally, as a result of the September 2, 2015 sublease of a portion of the Company's leased office space, we recorded approximately \$0.4 million of additional restructuring expense (see Note 4 - *Commitments and Contingencies - Leases*).

Financial Instruments

Our financial instruments, and/or embedded features contained in those instruments, often are classified as derivative liabilities and are recorded at their fair values. The determination of fair value of these instruments and features requires estimates and judgments. Some of our stock purchase warrants are considered to be derivative liabilities due to the presence of net settlement features and/or non-standard anti-dilution provisions; the fair value of our warrants is determined based on the Black-Scholes option pricing model. Use of the Black-Scholes option pricing model requires the use of unobservable inputs such as the expected term, anticipated volatility and expected dividends. See Note 3 – *Fair Value Measurements* for further details.

Revenue Recognition

We generate our revenue from different types of contractual arrangements: cost-plus-fee contracts and fixed price contracts.

Revenues on cost-plus-fee contracts are recognized in an amount equal to the costs incurred during the period plus an estimate of the applicable fee earned. The estimate of the applicable fee earned is determined by reference to the contract: if the contract defines the fee in terms of risk-based milestones and specifies the fees to be earned upon the completion of each milestone, then the fee is recognized when the related milestones are earned, as further described below; otherwise, we estimate the fee earned in a given period by using a proportional performance method based on costs incurred during the period as compared to total estimated project costs and application of the resulting fraction to the total project fee specified in the contract.

Under the milestone method of revenue recognition, milestone payments (including milestone payments for fees) contained in research and development arrangements are recognized as revenue when: (i) the milestones are achieved; (ii) no further performance obligations with respect to the milestone exist; (iii) collection is reasonably assured; and (iv) substantive effort was necessary to achieve the milestone.

A milestone is considered substantive if all of the following conditions are met:

- it is commensurate with either our performance to meet the milestone or the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from our performance to achieve the milestone,
- it relates solely to past performance, and
- the value of the milestone is reasonable relative to all the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

If a milestone is deemed not to be substantive, the Company recognizes the portion of the milestone payment as revenue that correlates to work already performed using the proportional performance method; the remaining portion of the milestone payment is deferred and recognized as revenue as the Company completes its performance obligations.

Revenue on fixed price contracts (without substantive milestones as described above) is recognized on the percentage-of-completion method. The percentage-of-completion method recognizes income as the contract progresses (generally related to the costs incurred in providing the services required under the contract). The use of the percentage-of-completion method depends on the ability to make reasonable dependable estimates and the fact that circumstances may necessitate frequent revision of estimates does not indicate that the estimates are unreliable for the purpose for which they are used.

As a result of our revenue recognition policies and the billing provisions contained in our contracts, the timing of customer billings may differ from the timing of recognizing revenue. Amounts invoiced to customers in excess of revenue recognized are reflected on the balance sheet as deferred revenue. Amounts recognized as revenue in excess of amounts billed to customers are reflected on the balance sheet as unbilled accounts receivable.

Upon notice of termination of a contract from the government, all related termination costs are expensed. Revenue is recognized on the termination costs to the extent those costs are allowable and billable under the contract. Because the government may require an audit of incurred costs, revenue is recognized when the Company is reasonably assured of collection.

Share-Based Compensation

We expense the estimated fair value of share-based awards granted to employees, non-employee directors, and consultants under our stock compensation plans. The fair value of stock options granted to employees and non-employee directors is determined at the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model considers, among other factors, the expected life of the award and the expected volatility of our stock price. The value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the employee's requisite service period.

The fair value of share-based awards granted to consultants is determined at the grant date using the Black-Scholes option pricing model and re-measured at each quarterly reporting date over their requisite service period. The value of awards that are ultimately expected to vest is recognized as expense on a straight-line basis over their requisite service period.

The fair value of restricted stock grants is determined based on the closing price of our common stock on the award date and is recognized as expense ratably over the requisite service period.

Share-based compensation expense recognized in the three months and nine months ended September 30, 2015 and 2014 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures.

Share-based compensation expense for the three months ended September 30, 2015 and 2014 was:

	Three months ended September 30,	
	2015	2014
Research and development	\$ 12,034	\$ 52,434
General and administrative	81,723	228,286
Total share-based compensation expense	<u>\$ 93,757</u>	<u>\$ 280,720</u>

During the three months ended September 30, 2015, we granted options to purchase 100,000 shares of common stock to non-employee directors and made no grants of options or shares of restricted stock to employees and consultants.

Share-based compensation expense for the nine months ended September 30, 2015 and 2014 was:

	Nine months ended September 30,	
	2015	2014
Research and development	\$ 85,259	\$ 329,655
General and administrative	395,470	843,048
Restructuring benefit	(53,741)	-
Total share-based compensation expense	<u>\$ 426,988</u>	<u>\$ 1,172,703</u>

As a result of the restructuring and termination of employees, during the nine months ended September 30, 2015, we recognized approximately \$75,000 of share-based compensation expense resulting from our agreement to extend the exercise period of the vested stock options for several of the executives who were terminated. In addition, approximately \$129,000 of previously recognized share-based compensation expense was reversed for unvested stock options forfeited as a result of the restructuring and termination of employees. The \$53,741 net reversal of share-based compensation expense is reflected in restructuring benefit in the above table.

During the nine months ended September 30, 2015, we granted options to purchase 112,000 shares of common stock to employees and non-employee directors and granted 117,500 shares of restricted stock to employees. During the nine months ended September 30, 2014, we granted options to purchase 1,357,755 shares of common stock to employees, non-employee directors and consultants and made no restricted stock grants.

At September 30, 2015, we had total unrecognized share-based compensation expense related to unvested awards of approximately \$0.8 million net of estimated forfeitures, which we expect to recognize as expense over a weighted-average period of 2.2 years.

Income Taxes

We account for income taxes using the asset and liability approach, which requires the recognition of future tax benefits or liabilities on the temporary differences between the financial reporting and tax bases of our assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized. We also recognize a tax benefit from uncertain tax positions only if it is "more likely than not" that the position is sustainable based on its technical merits. Our policy is to recognize interest and penalties on uncertain tax positions as a component of income tax expense. As of September 30, 2015 and December 31, 2014, we had recognized a full valuation allowance since the likelihood of realization of our tax deferred assets does not meet the more likely than not threshold.

Our income tax expense was \$0.02 million and \$0.03 million during the three months ended September 30, 2015 and 2014, respectively, and \$0.05 million during the nine months ended September 30, 2015 and 2014, relating exclusively to the generation of a deferred tax liability associated with the tax amortization of goodwill, which is included as a component of other long-term liabilities on our condensed consolidated balance sheets. The income tax expense results from the difference between the treatment of goodwill for income tax purposes and for U.S. GAAP.

Basic and Diluted Net Loss Per Share

Income (loss) per share: Basic income (loss) per share is computed by dividing consolidated net income (loss) by the weighted average number of common shares outstanding during the period, excluding unvested restricted stock.

For periods of net income when the effects are not anti-dilutive, diluted earnings per share is computed by dividing our net income by the weighted average number of shares outstanding and the impact of all potential dilutive common shares, consisting primarily of stock options, unvested restricted stock and stock purchase warrants. The dilutive impact of our potentially dilutive common shares resulting from stock options and stock purchase warrants is determined by applying the treasury stock method. For periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all potentially dilutive common shares is anti-dilutive due to the net losses.

A total of approximately 6.0 million and 10.9 million potentially dilutive securities have been excluded in the calculation of diluted net loss per share in the nine months ended September 30, 2015 and 2014, respectively, because their inclusion would be anti-dilutive.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU No. 2014-09”). ASU No. 2014-09 clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance affects entities that enter into contracts with customers to transfer goods or services, and supersedes prior GAAP guidance, namely Accounting Standards Codification Topic 605 – Revenue Recognition. On July 9, 2015, the FASB voted and approved to defer the effective date of ASU No. 2014-09 by one year. As a result, ASU No. 2014-09 will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted but not prior to the original effective date of annual periods beginning after December 15, 2016. ASU No. 2014-09 is to be applied retrospectively, or on a modified retrospective basis. We are currently evaluating the impact of adopting ASU No. 2014-09 on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest, or ASU No. 2015-03. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We expect that the impact of adoption on our consolidated financial statements will be immaterial.

Note 3 - Fair Value Measurements

The carrying amounts of our short-term financial instruments, which primarily include cash and cash equivalents, accounts receivable (billed and unbilled), and accounts payable approximate their fair values due to their short-term maturities. We define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We report assets and liabilities that are measured at fair value using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At each reporting period, we perform a detailed analysis of our assets and liabilities that are measured at fair value. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

We have segregated our financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. We have no non-financial assets and liabilities that are measured at fair value on a recurring basis.

The following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis:

	As of September 30, 2015			
	Level 1	Level 2	Level 3	Balance
Assets				
Investment in money market funds ⁽¹⁾	\$ 6,430,038	\$ -	\$ -	\$ 6,430,038
Total investment in money market funds	<u>\$ 6,430,038</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,430,038</u>
Liabilities				
Current portion of derivative instruments related to stock purchase warrants	\$ -	\$ -	\$ 2,355	\$ 2,355
Non-current portion of derivative instruments related to stock purchase warrants	-	-	227,898	227,898
Total derivative instruments related to stock purchase warrants	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,253</u>	<u>\$ 230,253</u>
	As of December 31, 2014			
	Level 1	Level 2	Level 3	Balance
Assets				
Investment in money market funds ⁽¹⁾	\$ 6,429,104	\$ -	\$ -	\$ 6,429,104
Total investment in money market funds	<u>\$ 6,429,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,429,104</u>
Liabilities				
Current portion of derivative instruments related to stock purchase warrants	\$ -	\$ -	\$ 178,509	\$ 178,509
Non-current portion of derivative instruments related to stock purchase warrants	-	-	629,170	629,170
Total derivative instruments related to stock purchase warrants	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 807,679</u>	<u>\$ 807,679</u>

(1) Included in cash and cash equivalents on the accompanying condensed consolidated balance sheets.

The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities for the nine months ended September 30, 2015 and 2014:

Description	Balance as of December 31, 2014	Unrealized (Gains) 2015	Exercised Stock Purchase Warrants 2015	Balance as of September 30, 2015
Derivative liabilities related to stock purchase warrants	\$ 807,679	\$ (577,426)	\$ -	\$ 230,253

Description	Balance as of December 31, 2013	Unrealized (Gains) 2014	Exercised Stock Purchase Warrants 2014	Balance as of September 30, 2014
Derivative liabilities related to stock purchase warrants	\$ 1,740,235	\$ (464,703)	\$ (423,739)	\$ 851,793

At September 30, 2015 and 2014, derivative liabilities are comprised of warrants to purchase 1,775,419 shares of common stock. The warrants are considered to be derivative liabilities due to the presence of net settlement features and/or non-standard anti-dilution provisions, and as a result, are recorded at fair value at each balance sheet date, with changes in fair value recorded in the accompanying unaudited condensed consolidated statements of operations. The fair value of our warrants is determined based on the Black-Scholes option pricing model. Use of the Black-Scholes option pricing model requires the use of unobservable inputs such as the expected term, anticipated volatility and expected dividends. Changes in any of the assumptions related to the unobservable inputs identified above may change the stock purchase warrants' fair value; increases in expected term, anticipated volatility and expected dividends generally result in increases in fair value, while decreases in the unobservable inputs generally result in decreases in fair value. Unrealized gains and losses on the fair value adjustments for these derivative instruments are classified in other income (expense) as the change in fair value of derivative instruments in the accompanying unaudited condensed consolidated statements of operations.

Quantitative Information about Level 3 Fair Value Measurements

Fair Value at September 30, 2015	Valuation Technique	Unobservable Inputs
\$ 230,253	Black-Scholes option pricing model	Expected term Expected dividends Anticipated volatility

Assets Measured at Fair Value on a Nonrecurring Basis

The Company measures its long-lived assets, including, property and equipment and goodwill, at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the three months ended September 30, 2015, the Company recorded an impairment charge for property and equipment in the amount of \$36,981. These assets were written down to their fair value of \$0 in conjunction with the sublease of the Company's leased office space (see Note 4 - *Commitments and Contingencies - Leases*). As of September 30, 2015, the Company had no other assets or liabilities that were measured at fair value on a nonrecurring basis.

Note 4 - Commitments and Contingencies

SIGA Litigation

In December 2006, we filed a complaint against SIGA in the Delaware Court of Chancery. The complaint alleged, among other things, that we have the exclusive right to license, development and marketing rights for SIGA's drug candidate, Arestvyr™ (Tecovirimat), pursuant to a merger agreement between the parties that was terminated in 2006. The complaint also alleged that SIGA failed to negotiate in good faith the terms of such a license pursuant to the terminated merger agreement with SIGA.

In September 2011, the Delaware Court of Chancery issued an opinion in the case finding that SIGA had breached certain contractual obligations to us upholding our claims of promissory estoppel, and awarding us damages. SIGA appealed aspects of the decision to the Delaware Supreme Court. In response, we cross-appealed other aspects of the decision. In May 2013, the Delaware Supreme Court issued its ruling on the appeal, affirming the Delaware Court of Chancery's finding that SIGA had breached certain contractual obligations to us, reversed its finding of promissory estoppel, and remanded the case back to the Delaware Court of Chancery to reconsider the remedy and award in light of the Delaware Supreme Court's opinion.

On August 8, 2014, the Delaware Court of Chancery issued a Memorandum Opinion and Order, or August 2014 Order, finding that we are entitled to receive lump sum expectation damages for the value of the Company's lost profits for Tecovirimat. In addition, the Delaware Court of Chancery found that the Company is entitled to receive pre-judgment interest and varying percentages of the Company's reasonable attorneys' and expert witness fees. On October 17, 2014, the Company and SIGA each filed opinions of our respective financial experts and Draft Orders and Judgments in accordance with the instructions of the August 2014 Order.

On September 16, 2014, SIGA announced that it filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. In connection therewith, SIGA filed with the Bankruptcy Court an affidavit indicating, among other things, that it expects to continue to perform under its contract with BARDA. SIGA's petition for bankruptcy initiated a process whereby its assets are protected from creditors, including us.

On January 7, 2015, the Delaware Court of Chancery issued a letter Opinion and Order, directing the Company to submit a Revised Proposed Judgment that reflects a lump sum award of approximately \$113 million in contract expectation damages, plus pre-judgment interest on that amount from 2006 through the date of such order. In accordance with the instructions of the court, the Company submitted a draft Revised Proposed Judgment under seal on January 9, 2015.

On January 15, 2015, the Delaware Court of Chancery issued a Final Order and Judgment, finding that we are entitled to receive a lump sum award of \$194.6 million, or the Total Judgment, comprised of (1) expectation damages of \$113.1 million for the value of the Company's lost profits for Tecovirimat, also known as ST-246[®] (formerly referred to as "Arestvyr[™]" and referred to by SIGA in its recent SEC filings as "Tecovirimat"), plus (2) pre-judgment interest on that amount from 2006 and varying percentages of the Company's reasonable attorneys' and expert witness fees, totaling \$81.5 million. Under the Final Order and Judgment, PharmAthene is also entitled to post-judgment simple interest. PharmAthene's entitlement to interest from and after SIGA's bankruptcy filing may be negatively impacted by the proceedings under the Bankruptcy Code.

SIGA filed a notice of appeal with the Delaware Supreme Court in which it challenges various findings of the Court of Chancery and seeks to set aside the Final Order and Judgment, and we filed a notice of cross-appeal. On March 2, 2015, SIGA filed their opening brief, and PharmAthene filed a response on April 1, 2015. SIGA took the opportunity to file their reply brief on May 1, 2015, and PharmAthene filed their reply brief on cross-appeal on May 11, 2015.

On October 7, 2015, oral arguments in SIGA's appeal and PharmAthene's cross-appeal of the January 15, 2015 Final Order and Judgment took place in the Delaware Supreme Court. There can be no assurances that the Delaware Supreme Court will rule in PharmAthene's favor, or that PharmAthene will receive any payments from SIGA. As a result, the decision could be reversed, remanded or otherwise changed.

While we believe that we may have a right to receive a significant amount under a possible damages award, because SIGA has filed a notice of appeal with the Delaware Supreme Court and because there can be no assurance that SIGA will not be successful in any such appeal, we have not yet recorded any amount due from SIGA in relation to this case. There can be no assurances if or when the Company will receive any payments from SIGA as a result of the Judgment. SIGA has stated publicly that it does not currently have cash sufficient to satisfy the award. It is also uncertain whether SIGA will have such cash in the future.

PharmAthene's ability to collect the Judgment depends upon a number of factors, including SIGA's financial and operational success, which is subject to a number of significant risks and uncertainties (certain of which are outlined in SIGA's filings with the SEC), as to which we have limited knowledge and which we have no ability to control, mitigate or fully evaluate. SIGA disclosed in its Current Report on Form 8-K filed April 29, 2015 that it entered into a modification to its contract with BARDA on April 29, 2015 to increase the provisional dosage of Tecovirimat and extend the delivery schedule. The modification was subject to approval by the Bankruptcy Court, which was granted on April 27, 2015. Furthermore, because SIGA has filed for protection under the federal bankruptcy laws, the Company is automatically stayed from taking any enforcement action in the Delaware Court of Chancery. By agreement of the parties, and with the approval of the Bankruptcy Court, the automatic stay has been lifted for the sole purpose of allowing the Delaware Court of Chancery to enter a money judgment and to allow the parties to exercise their appellate rights. The Company's ability to collect a money judgment from SIGA, if any, remains subject to further proceedings in the Bankruptcy Court. The Company has not recognized any potential proceeds from these actions in its financial statements to date.

Government Contracting

Payments to the Company on cost-plus-fee contracts are provisional. The accuracy and appropriateness of costs charged to U.S. Government contracts are subject to regulation, audit and possible disallowance by the Defense Contract Audit Agency (“DCAA”) and other government agencies such as BARDA. Accordingly, costs billed or billable to U.S. Government customers are subject to potential adjustment upon audit by such agencies.

We have agreed to rate provisions with DCAA for 2006, 2007 and 2008. In 2014, BARDA audited indirect costs or rates charged by us on the SparVax[®] contract for the years 2008 through 2013. As a result of the audit, in March of 2015, we were able to record revenue, and invoice BARDA in the amount of \$5.8 million in connection with these costs, all of which was collected in April 2015.

BARDA has started an audit of our 2014 costs related to the partial termination for convenience of the SparVax[®] contract. While we do not currently believe the results of this audit will have an adverse effect on the Company, we cannot provide assurances that it will not have such an effect. The Company has billed and recognized revenue using the provisional rates as defined in the contract. While the actual rates for 2014, which reflect the actual costs incurred by us, have been higher than the provisional rates, we have no assurance on either the amount of additional funds we may receive as a result of these higher rates or the amount of time it may take to recover these funds. The amount of any such funds is determined as a result of future audits by BARDA.

Changes in government policies, priorities or funding levels through agency or program budget reductions by the U.S. Congress or executive agencies could materially adversely affect the Company’s financial condition or results of operations. Furthermore, contracts with the U.S. Government may be terminated or suspended by the U.S. Government at any time, with or without cause. Such contract suspensions or terminations could result in unreimbursable expenses or charges or otherwise adversely affect the Company’s financial condition and/or results of operations.

Registration Rights Agreements

We entered into a Registration Rights Agreement with the investors who participated in the July 2009 private placement of convertible notes and related warrants. We subsequently filed two registration statements on Form S-3 with the SEC to register the resale of the shares issuable upon conversion of the convertible notes and exercise of the related warrants, which have been declared effective. We are obligated to maintain the registration statements effective until the date when such shares (and any other securities issued or issuable with respect to or in exchange for such shares) have been sold or are eligible for resale without restrictions under Rule 144. The convertible notes were converted or extinguished in 2010. The warrants expired on January 28, 2015.

Under the terms of the convertible notes, which were converted or extinguished in 2010, if after the 2nd consecutive business day (other than during an allowable blackout period) on which sales of all of the securities required to be included on the registration statement cannot be made pursuant to the registration statement (a “Maintenance Failure”), we will be required to pay to each selling stockholder a one-time payment of 1.0% of the aggregate principal amount of the convertible notes relating to the affected shares on the initial day of a Maintenance Failure. Our total maximum obligation under this provision at September 30, 2015, which is not probable of payment, would be approximately \$0.2 million.

Following a Maintenance Failure, we will also be required to make to each selling stockholder monthly payments of 1.0% of the aggregate principal amount of the convertible notes relating to the affected shares on every 30th day after the initial day of a Maintenance Failure, in each case prorated for shorter periods and until the failure is cured. Our total maximum obligation under this provision, which is not probable of payment, would be approximately \$0.2 million for each month until the failure, if it occurs, is cured.

We have separate registration rights agreements with investors, under which we have obligations to keep the corresponding registration statements effective until the registrable securities (as defined in each agreement) have been sold, and under which we may have separate obligations to file registration statements in the future on either a demand or “piggy-back” basis or both.

License Agreements

On July 6, 2015, PharmAthene signed a license agreement with ImmunoVaccine for the exclusive use of the DepoVax[™] vaccine platform, to develop an anthrax vaccine utilizing PharmAthene’s recombinant protective antigen (“rPA”). ImmunoVaccine is a clinical-stage vaccine development company located in Halifax, Nova Scotia. PharmAthene will reimburse up to \$210,000 to ImmunoVaccine for their efforts in developing this vaccine. In addition, ImmunoVaccine will receive annual payments of \$200,000, and additional payments for the achievement of certain milestones relating to contracting with the U.S. Government as well as achieving certain clinical/regulatory and commercial milestones, and achievement of sales targets. Additionally, ImmunoVaccine will receive a royalty on sales related to the use of DepoVax[™].

Leases

The Company leases its office under a 10-year operating lease, which commenced on May 1, 2007. On September 2, 2015, the Company entered into a sublease agreement with a third party with respect to a portion of its leased office space in Annapolis, Maryland at an amount less than the Company's leased amount. As a result, we realized a loss of \$0.4 million in restructuring expense our condensed consolidated statements of operations for the nine months ended September 30, 2015.

The present value of the Company's remaining lease liability (net of the sublease rental income), is included on the balance sheet as a component of accrued restructuring expenses as follows:

Description	Present Value at September 30, 2015
Accrued restructuring expenses	\$ 244,769
Accrued restructuring expenses - long term	\$ 184,018

Note 5 - Stockholders' Equity

Long-Term Incentive Plan

In 2007, the Company's stockholders approved the 2007 Long-Term Incentive Compensation Plan (the "2007 Plan") which provides for the granting of incentive and non-qualified stock options, stock appreciation rights, performance units, restricted stock awards and performance bonuses (collectively "awards") to Company officers and employees. Additionally, the 2007 Plan authorizes the granting of non-qualified stock options and restricted stock awards to Company directors and to independent consultants.

In 2008, our stockholders approved amendments to the 2007 Plan, increasing from 3.5 million shares to 4.6 million shares the maximum number of shares authorized for issuance under the plan and adding an evergreen provision pursuant to which the number of shares authorized for issuance under the plan would increase automatically in each year, beginning in 2009, in accordance with certain limits set forth in the 2007 Plan. Under the terms of the evergreen provision, the annual increases were to continue through 2015, subject, however, to an aggregate limitation on the number of shares that could be authorized for issuance pursuant to such increases. This aggregate limitation was reached on January 1, 2014, so that the number of shares authorized for issuance under the plan did not automatically increase on January 1, 2015. At September 30, 2015, there are approximately 10.3 million shares approved for issuance under the 2007 Plan, of which approximately 4.4 million shares are available for grant. The Board of Directors in conjunction with management determines who receives awards, the vesting conditions and the exercise price. Options may have a maximum term of ten years.

Warrants

At September 30, 2015, there were warrants outstanding to purchase 1,922,781 shares of our common stock.

Warrants to purchase 2,572,775 shares of common stock expired on January 28, 2015 without being exercised. The warrants were classified as equity.

The warrants outstanding as of September 30, 2015, all of which are exercisable, were as follows:

Number of Common Shares Underlying Warrants As of September 30, 2015			Issue Date		Exercise Price	Expiration Date
100,778	(1)		March 2007	\$	3.97	March 2017
500,000	(2) (3)		April 2010	\$	1.89	October 2015
903,996	(2)		July 2010	\$	1.63	January 2017
371,423	(2)		June 2011	\$	3.50	June 2016
46,584	(1)		March 2012	\$	1.61	March 2022
1,922,781						

- (1) These warrants to purchase common stock are classified as equity.
- (2) Because of the presence of net settlement provisions, these warrants to purchase common stock are classified as derivative liabilities. The fair value of these liabilities (see Note 3 – *Fair Value Measurements*) is remeasured at the end of every reporting period and the change in fair value is reported in the accompanying unaudited condensed consolidated statements of operations as other income (expense).
- (3) Warrants to purchase 500,000 shares of common stock expired on October 13, 2015 without being exercised. The warrants were classified as derivative liabilities.

Note 6 – Financing Transactions

Controlled Equity Offering

On March 25, 2013, we entered into a controlled equity offering sales agreement with a sales agent, and filed with the SEC a prospectus supplement, dated March 25, 2013 to our prospectus dated July 27, 2011, or the 2011 Prospectus, pursuant to which we could offer and sell, from time to time, through the agent, shares of our common stock having an aggregate offering price of up to \$15.0 million.

On May 23, 2014, we entered into an amendment, or the 2014 Amendment, to the controlled equity offering sales agreement with the sales agent, pursuant to which we may offer and sell, from time to time, through the agent, shares of our common stock having an aggregate offering price of up to an additional \$15.0 million. On that day, we filed a prospectus supplement to the 2011 Prospectus for use in any sales of these additional shares of common stock through July 26, 2014, the date the underlying registration statement (File No. 333-175394) expired. As a result of this expiration, the 2011 Prospectus, as supplemented on March 25, 2013 and May 23, 2014, may no longer be used for the sale of shares of common stock under the controlled equity offering sales agreement, as amended. On May 23, 2014, we also filed a new universal shelf registration statement (File No. 333-196265) containing, among other things, a prospectus, or the 2014 Prospectus, for use in sales of the common stock under the 2014 Amendment. This registration statement was declared effective on May 30, 2014. Since the expiration of the 2011 Prospectus, all sales under the controlled equity offering sales agreement, as amended, are being effected under the 2014 Prospectus.

Under the controlled equity offering sales agreement, as amended, the agent may sell shares by any method permitted by law and deemed to be an “at-the-market” offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made directly on NYSE MKT, or any other existing trading market for our common stock or to or through a market maker. Subject to the terms and conditions of that agreement, the agent will use commercially reasonable efforts, consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of NYSE MKT, to sell shares from time to time based upon our instructions. We are not obligated to sell any shares under the arrangement. We are obligated to pay the agent a commission of 3.0% of the aggregate gross proceeds from each sale of shares under the arrangement.

As of September 30, 2015, shares having an aggregate offering price of \$3.0 million remained available under the controlled equity offering sales agreement, as amended. During the three and nine months ended September 30, 2015, we did not sell any shares of our common stock under this arrangement. The expiration date of the existing universal shelf registration statement is May 29, 2017, three years after it became effective. The controlled equity offering sales agreement, as amended, will expire on the same date, unless amended.

Termination of Loan Agreement with GE Capital

On September 3, 2015, we satisfied in full our remaining obligations under our March 2012 Loan Agreement with GE Capital. The Loan Agreement was scheduled to terminate on September 29, 2015. The Loan Agreement provided for a senior secured debt facility including a \$2.5 million term loan and a revolving line of credit of up to \$5.0 million based on our outstanding qualified accounts receivable.

The final payment fee was accrued and expensed over the term of the Loan Agreement, using the effective interest method. Financing costs incurred in connection with this agreement were also amortized over the term of the agreement using the effective interest method.

The termination of the Loan Agreement released from us our obligations under the Loan Agreement, which were collateralized by a security interest in substantially all of our assets.

In connection with the Loan Agreement, we issued to GE Capital a warrant to purchase 46,584 shares of the Company's common stock at an exercise price of \$1.61 per share. The warrant, which expires in March 2022, was not affected by the termination. The warrant was exercisable immediately and subject to customary and standard anti-dilution adjustments. The warrant is classified in equity and, as a result, the fair value of the warrant was charged to additional paid-in-capital resulting in a debt discount at the date of issuance. The debt discount was amortized over the term of the Loan Agreement using the effective interest method.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This information may involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, risks associated with the following:

- *our interest in the judgment relating to SIGA's Tecovirimat, also known as ST-246[®] (formerly referred to as "Arestvyr[™]," and referred to by SIGA in its recent SEC filings as "Tecovirimat"), including the risk that we will not be able to collect any amounts related thereto,*
- *the reliability of the results of the studies relating to human safety and possible adverse effects resulting from the administration of our product candidates,*
- *funding delays, reductions in or elimination of U.S. Government funding and/or non-renewal of expiring funding under our September 2014 contract with NIAID after we receive funding of approximately \$7.5 million over the base period and the first option,*
- *our common stock,*
- *the continuation of availability of our net operating loss carryforwards, or NOLs,*
- *delays caused by third parties challenging government contracts awarded to us,*
- *unforeseen safety and efficacy issues,*
- *our Realignment Plan,*

- accomplishing any future strategic partnerships or business combinations,
- continuing funding requirements and dilution relating thereto,
- our ability to continue to satisfy the listing requirements of the NYSE MKT,

as well as risks detailed under the caption “Risk Factors” in our annual report on Form 10-K and in our other reports filed with the U.S. Securities and Exchange Commission, or the SEC, from time to time hereafter.

In particular, in its August 2014 decision, the Delaware Court of Chancery awarded to us lump sum expectation damages for the value of lost profits for Tecovirimat. On January 15, 2015, the Delaware Court of Chancery issued its Final Order and Judgment, finding that we are entitled to receive the Total Judgment, comprised of (1) expectation damages of \$113.1 million for the value of the Company’s lost profits for Tecovirimat, plus (2) pre-judgment interest on that amount from 2006 and varying percentages of the Company’s reasonable attorneys’ and expert witness fees, totaling \$81.5 million. Under the Final Order and Judgment, PharmAthene is also entitled to post-judgment simple interest. PharmAthene’s entitlement to interest from and after SIGA’s bankruptcy filing may be negatively impacted by the proceedings under the Bankruptcy Code.

SIGA filed a notice of appeal with the Delaware Supreme Court in which it challenges various findings of the Court of Chancery and seeks to set aside the Final Order and Judgment, and we filed a notice of cross-appeal. On March 2, 2015, SIGA filed their opening brief, and PharmAthene filed a response on April 1, 2015. SIGA took the opportunity to file their reply brief on May 1, 2015, and PharmAthene filed their reply brief on cross-appeal on May 11, 2015.

On October 7, 2015 oral arguments in SIGA’s appeal and PharmAthene’s cross-appeal of the January 15, 2015 Final Order and Judgment took place in the Delaware Supreme Court. There can be no assurances that the Delaware Supreme Court will rule in PharmAthene’s favor, or that PharmAthene will receive any payments from SIGA. As a result, the decision could be reversed, remanded or otherwise changed.

There can be no assurances if or when we will receive any payments from SIGA as a result of the Judgment. SIGA has stated publicly that it does not currently have cash sufficient to satisfy the potential award. It is also uncertain whether SIGA will have such cash in the future. PharmAthene’s ability to collect the Judgment depends upon a number of factors, including SIGA’s financial and operational success, which is subject to a number of significant risks and uncertainties (certain of which are outlined in SIGA’s filings with the SEC), as to which we have limited knowledge and which we have no ability to control, mitigate or fully evaluate. SIGA disclosed in its Current Report on Form 8-K filed April 29, 2015 that it entered into a modification to its contract with BARDA on April 29, 2015 to increase the provisional dosage of Tecovirimat and extend the delivery schedule. Furthermore, because SIGA has filed for protection under the federal bankruptcy laws, we are automatically stayed from taking any enforcement action in the Delaware Court of Chancery. By agreement of the parties, and with the approval of the Bankruptcy Court, the automatic stay has been lifted for the sole purpose of allowing the Delaware Court of Chancery to enter a money judgment and to allow the parties to exercise their appellate rights. Our ability to collect a money judgment from SIGA, if any, remains subject to further proceedings in the Bankruptcy Court.

Moreover, at this point, future government funding to support the development of Valortim[®], recombinant butyrylcholinesterase (“rBChE”) bioscavenger and liquid SparVax[®] is unlikely. Even if we received such funding, significant additional non-clinical animal studies, human clinical trials, and manufacturing development work remain to be completed for our product candidates. It is also uncertain whether any of our product candidates will be shown to be safe and effective and approved by regulatory authorities for use in humans.

Forward-looking statements describe management’s current expectations regarding our future plans, strategies and objectives and are generally identifiable by use of the words “may,” “will,” “should,” “could,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” “project,” “potential” or “plan” or the negative of these words or other variations on these words or comparable terminology. Such statements include, but are not limited to, statements relating to:

- anticipated results of pending legal proceedings,
- potential payments under government contracts or grants,
- potential future government contracts or grant awards,
- potential regulatory approvals,

- future product advancements, and
- anticipated financial or operational results.

Finally, PharmAthene can offer no assurances that it has correctly estimated the resources necessary to execute under its NIAID contract and seek partners, co-developers or acquirers for its other programs under its realignment plan. If a larger workforce or one with a different skillset is ultimately required to implement the realignment plan successfully, or if PharmAthene inaccurately estimated the cash and cash equivalents necessary to finance its operations until SIGA's appeal has been adjudicated and it has received SIGA's payment, if PharmAthene prevails on appeal, its business, results of operations, financial condition and cash flows may be materially and adversely affected.

Forward-looking statements are based on assumptions that may be incorrect, and we cannot assure you that the projections included in the forward-looking statements will come to pass.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on information available to us on the date of this quarterly report, and we assume no obligation to update any such forward-looking statements, other than as required by law. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we, in the future, may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to above. Unless otherwise indicated, the information in this quarterly report is as of September 30, 2015.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements which present our results of operations for the three and nine months ended September 30, 2015 and 2014, as well as our financial positions at September 30, 2015 and December 31, 2014, contained elsewhere in this quarterly report on Form 10-Q. The following discussion should also be read in conjunction with the annual report on Form 10-K for the year ended December 31, 2014, including the consolidated financial statements contained therein.

Overview

Since 2001, we have been a biodefense company engaged in the development of next generation medical counter measures against biological and chemical threats. Our efforts are focused on the development of the improved anthrax vaccines utilizing our base recombinant PA technology platform. We currently have one active program funded by NIAID under a contract awarded in September 2014 for up to \$28.1 million assuming all options are exercised.

Realignment Plan

On March 9, 2015, our Board of Directors approved a plan to preserve and maximize, for the benefit of our stockholders, the value of any proceeds from our litigation with SIGA and our existing biodefense assets. The plan eliminated approximately two-thirds of our workforce and aimed to preserve sufficient cash and cash equivalents to finance our continued operations through a period of time expected to extend beyond the adjudication of SIGA's appeal of the decision of the Delaware Chancery Court awarding us \$194.6 million plus post-judgment interest. We refer to the plan as the "Realignment Plan." Under the Realignment Plan, we intend to maintain sufficient resources and personnel so that we can seek partners, co-developers or acquirers for our biodefense programs and continue to execute under our anthrax government contract with NIAID.

As part of the Realignment Plan, our Board terminated Eric Richman as President and Chief Executive Officer and Linda Chang as Chief Financial Officer, Treasurer and Secretary, as well as our executive officers Francesca Cook and Wayne Morges. Mr. Richman remains a member of our Board of Directors, and, as such, will continue to play a key role in managing the ongoing litigation, other legal matters and any strategic transactions. In addition, Messrs. Joel McCleary and Brian Markison resigned from our Board of Directors effective March 11, 2015, and our Board has reduced the number of directors from eight to six.

John Gill, a member of our Board of Directors, began serving as President and Chief Executive Officer effective March 12, 2015, and Vice President and Controller Philip MacNeill began serving as Chief Financial Officer, Treasurer and Secretary effective May 1, 2015. Mr. Gill is expected to devote the necessary time to carry out his duties as President and Chief Executive Officer, and although he does not have other employment, he is not expected to devote his full time to the business of the Company, which is reflected in his compensation.

The terminations of the departing executive officers were without “cause” as defined under their respective employment agreements and the departing officers will therefore receive cash payments in accordance with the terms of such agreements. The Company estimates total severance payments to executives and non-executives in connection with the Realignment Plan to amount to approximately \$2.0 million, with substantially all such severance expenses expected to be paid in 2015. Mr. Richman, Ms. Chang, Ms. Cook and Dr. Morges furthermore entered into separation agreements with the Company. These agreements extend exercise periods of options and health benefits. In light of his continuing service as director, Mr. Richman’s options will continue vesting for as long as he serves on our Board of Directors, with his then-vested options terminating 90 days after Mr. Richman leaves our Board. Ms. Chang’s, Dr. Morges’ and Ms. Cook’s options will remain exercisable for the duration of their respective severance periods under their employment agreements. Changes to the exercise period of these options were made in accordance with the terms of the Company’s 2007 Long-Term Incentive Compensation Plan, as amended. We recognized approximately \$75,000 of share-based compensation expense resulting from our agreement to extend the exercise period. In addition, to the extent that the executive officers elect COBRA coverage, the premiums payable by the officers during their respective severance periods will equal those payable by active employees of the Company for the same level of group health coverage, and will be deducted from the officers’ severance pay. The separation agreements contain releases by the executive officers and the Company. The agreements with Ms. Chang, Dr. Morges and Ms. Cook furthermore obligate them to cooperate with the Company in connection with the SIGA litigation. The agreement with Dr. Morges also provides that for six months following termination, Dr. Morges may be called upon from time to time to assist the Company with matters relating to his duties and responsibilities prior to termination at an hourly rate of \$169.

We can offer no assurances that we have correctly estimated the resources or personnel necessary to seek partners, co-developers or acquirers for our biodefense programs or execute under our NIAID contract. If a larger workforce or one with a different skillset is ultimately required to implement our Realignment Plan successfully, we may be unable to maximize the value of the SIGA litigation and our existing biodefense assets. In addition, executive officers who have served the Company for many years have been terminated, and, with the exception of Mr. Richman’s continued service on the Board, will no longer be available to guide the Company. We also cannot assure you that we have accurately estimated the cash and cash equivalents necessary to finance our operations until SIGA’s appeal has been adjudicated and we have received SIGA’s payment, if we prevail on appeal. If revenues from our NIAID contract are less than we anticipate, if operating expenses exceed our expectations or cannot be adjusted accordingly, or if we have underestimated the time it will take for us to prevail in SIGA’s appeal, or enforce payment of or collect any damages award from SIGA, if we do prevail, then our business, results of operations, financial condition and cash flows will be materially and adversely affected.

License Agreements

On July 6, 2015, PharmAthene signed a license agreement with ImmunoVaccine for the exclusive use of the DepoVaxTM vaccine platform, to develop an anthrax vaccine utilizing PharmAthene’s recombinant protective antigen (“rPA”). ImmunoVaccine is a clinical-stage vaccine development company located in Halifax, Nova Scotia. PharmAthene will reimburse up to \$210,000 to ImmunoVaccine for their efforts in developing this vaccine. In addition, ImmunoVaccine will receive annual payments of \$200,000, and additional payments for the achievement of certain milestones relating to contracting with the U.S. Government as well as achieving certain clinical/regulatory and commercial milestones, and achievement of sales targets. Additionally, ImmunoVaccine will receive a royalty on sales related to the use of DepoVaxTM.

Leases

On September 2, 2015, the Company entered into a sublease agreement with a third party with respect to a portion of its leased office space.

Other Recent Developments

On January 15, 2015, the Delaware Court of Chancery issued a Final Order and Judgment, finding that we are entitled to receive the Total Judgment, comprised of (1) expectation damages of \$113.1 million, for the value of the Company’s lost profits for Tecovirimat, plus (2) pre-judgment interest on that amount from 2006 and varying percentages of the Company’s reasonable attorneys’ and expert witness fees, totaling \$81.5 million. Under the Final Order and Judgment, PharmAthene is also entitled to post-judgment simple interest. PharmAthene’s entitlement to interest from and after SIGA’s bankruptcy filing may be negatively impacted by the Bankruptcy Code. SIGA filed a notice of appeal with the Delaware Supreme Court in which it challenges various findings of the Court of Chancery and seeks to set aside the Final Order and Judgment, and we filed a notice of cross-appeal. Subsequently, both SIGA and PharmAthene have filed appeals and reply briefs. As a result, the decision could be reversed, remanded or otherwise changed.

There can be no assurances if or when the Company will receive any payments from SIGA as a result of the Judgment. SIGA has stated publicly that it does not currently have cash sufficient to satisfy the potential award. It is also uncertain whether SIGA will have such cash in the future. PharmAthene's ability to collect the Judgment depends upon a number of factors, including SIGA's financial and operational success, which is subject to a number of significant risks and uncertainties (certain of which are outlined in SIGA's filings with the SEC), as to which we have limited knowledge and which we have no ability to control, mitigate or fully evaluate. SIGA disclosed in its Current Report on Form 8-K filed April 29, 2015 that it entered into a modification to its contract with BARDA on April 29, 2015 to increase the provisional dosage of Tecovirimat and extend the delivery schedule. Furthermore, because SIGA has filed for protection under the federal bankruptcy laws, PharmAthene is automatically stayed from taking any enforcement action in the Delaware Court of Chancery. By agreement of the parties, and with the approval of the Bankruptcy Court, the automatic stay has been lifted for the sole purpose of allowing the Delaware Court of Chancery to enter a money judgment and to allow the parties to exercise their appellate rights. The Company's ability to collect a money judgment from SIGA, if any, remains subject to further proceedings in the Bankruptcy Court, and the Company therefore has not recorded any potential proceeds to date.

Critical Accounting Policies

A "critical accounting policy" is one that is both important to the portrayal of our financial condition and results of operations and that requires management's most difficult, subjective or complex judgments. Such judgments are often the result of a need to make estimates about the effect of matters that are inherently uncertain. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

We believe that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited condensed consolidated financial statements are read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the U.S. Securities and Exchange Commission.

There were no significant changes in critical accounting policies from those at December 31, 2014.

Results of Operations

Revenue

We recognized revenue of \$1.2 million and \$1.0 million during the three months ended September 30, 2015 and 2014, respectively. We recognized revenue of \$9.4 million and \$8.4 million during the nine months ended September 30, 2015 and 2014, respectively.

Revenue (\$ in millions)	Three months ended September 30,		
	2015	2014	% Change
SparVax [®] and next generation anthrax vaccine	\$ 1.2	\$ 1.0	20.0%
rBChE bioscavenger	-	-	-%
Total revenue	\$ 1.2	\$ 1.0	20.0%

Revenue (\$ in millions)	Nine months ended September 30,		
	2015	2014	% Change
SparVax [®] and next generation anthrax vaccine	\$ 9.4	\$ 7.9	19.0%
rBChE bioscavenger	-	0.5	(100.0)%
Total revenue	\$ 9.4	\$ 8.4	11.9%

During the three and nine months ended September 30, 2015, our revenue was derived primarily from contracts with the U.S. Government for the development of anthrax vaccine programs. During the three and nine months ended September 30, 2014, our revenue was derived primarily from contracts with the U.S. Government for the development of anthrax vaccine programs. Our revenue in the three and nine months ended September 30, 2015 changed from the comparable period of 2014 primarily due to the following:

- Under our contract for the development of SparVax[®] (the liquid second generation rPA) with BARDA, we did not recognize any revenue for the three months ended September 30, 2015, and recognized \$1.0 million for the three months ended September 30, 2014. We recognized approximately \$6.1 million and \$7.9 million for the nine months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015, revenue was primarily attributable to the receipt of a one-time payment as a result of an audit completed by BARDA and contract wind-up activity. On April 4, 2014, we received notification from BARDA, advising us of its decision to de-scope the SparVax[®] anthrax vaccine contract through a partial termination for convenience. The contract formally expired on February 28, 2015. We do not expect that we will receive additional funding from BARDA for the further development of SparVax[®] as a liquid product. Therefore, we anticipate that revenues for this program in 2015 will be significantly less than in 2014.

In 2014, BARDA audited indirect costs or rates charged by us on the SparVax[®] contract for the years 2008 through 2013. We billed and recognized revenue using the provisional rates as defined in the contract. As a result of the audit, we recognized revenue of \$5.8 million in the first quarter of 2015, representing the difference between actual rates (i.e., actual cost to us) and the provisional rates used to calculate previously billed and recognized revenue. We received payment of this amount in the second quarter of 2015.

BARDA has started an audit of our 2014 costs related to the partial termination for convenience of the SparVax[®] contract. While we do not currently believe the results of this audit will have an adverse effect on the Company, we cannot provide assurances that it will not have such an effect. The Company has billed and recognized revenue using the provisional rates as defined in the contract. While the actual rates for 2014 which reflect the actual costs incurred by us, have been higher than the provisional rates, we have no assurance on either the amount of additional funds we may receive as a result of these higher rates or the amount of time it may take to recover these funds. The amount of any such funds is determined as a result of future audits by BARDA.

On September 9, 2014, we entered into a contract with NIAID for the development of a next generation lyophilized anthrax vaccine based on the Company's proprietary technology platform which contributes the rPA bulk drug substance that is used in the liquid SparVax[®] formulation. On September 10, 2015, NIAID exercised the first option under this agreement. The option provides additional funding of approximately \$2.3 million and an extension of the period of performance through September 30, 2016. During the three and nine months ended September 30, 2015, we recognized approximately \$1.2 million and \$3.3 million in revenue, respectively. We recognized milestone revenue of approximately \$0.2 million in fixed fee during the three months ended September 30, 2015, relating to the successful completion of the manufacturing of two lyophilized anthrax vaccine candidates which utilize the same rPA bulk drug substance that is used in the liquid SparVax[®] product.

- Our contract with Chemical Biological Medical Systems ("CBMS"), for our second generation rBChE bioscavenger ended on September 8, 2014. We do not foresee any additional funding for this program and expect that revenues from this program in the future will be minimal. Revenue in support of contract activities for the nine months ended September 30, 2014 was \$0.5 million.

Research and Development Expenses

Our research and development expenses were \$1.1 million and \$1.7 million for the three months ended September 30, 2015 and 2014, respectively. In 2015, these expenses related to the lyophilized anthrax vaccine candidates as well as the stability program for the liquid product. In 2014, these expenses resulted from research and development activities in all periods relating primarily to our SparVax[®] and rBChE bioscavenger programs.

Research and development expenses for the three and nine months ended September 30, 2015 and 2014 were attributable to research programs as follows:

Expenses (\$ in millions)	Three months ended September 30,		
	2015	2014	% Change
SparVax [®] and next generation anthrax vaccine	\$ 1.1	\$ 1.7	(35.3)%
rBChE bioscavenger	-	-	-%
Total research and development expenses	\$ 1.1	\$ 1.7	(35.3)%

Expenses (\$ in millions)	Nine months ended September 30,		
	2015	2014	% Change
SparVax [®] and next generation anthrax vaccine	\$ 4.0	\$ 7.1	(43.7)%
rBChE bioscavenger	-	0.4	(100.0)%
Total research and development expenses	\$ 4.0	\$ 7.5	(46.7)%

For the three and nine months ended September 30, 2015, research and development expenses decreased \$0.6 million and \$3.5 million, respectively, from the same period in the prior year, primarily due to decreased costs relating to our BARDA sponsored SparVax[®] program, as a result of BARDA's de-scoping of the contract, and the expiration of the period of performance under our rBChE bioscavenger contract on September 8, 2014. Costs were incurred in 2015 to further the NIAID (lyophilized) program and internal research and development funds were expensed for release and stability testing for the liquid product.

General and Administrative Expenses

General and administrative functions include executive management, finance and administration, government affairs and regulations, corporate development, human resources, legal, and compliance.

Expenses associated with general and administrative functions were \$1.2 million and \$3.2 million for the three months ended September 30, 2015 and 2014, respectively. The \$2.0 million decrease when comparing the three months ended September 30, 2015 to the three months ended September 30, 2014 was primarily due to a reduction in employee costs resulting from our implementation of the Realignment Plan, which eliminated approximately two-thirds of our workforce and a reduction in legal expenses. We expect general and administrative expenses for the last quarter of 2015 to be consistent with the third quarter of 2015. Expenses associated with general and administrative functions were \$5.2 million and \$8.3 million for the nine months ended September 30, 2015 and 2014, respectively. Similarly, the reduction in expenses of \$3.1 million was attributable to a reduction in workforce, and legal expenses.

Restructuring Expense

Restructuring expense was \$0.4 million and \$2.5 million for the three and nine months ended September 30, 2015, respectively. Pursuant to the Realignment Plan, we recorded severance expense of \$2.0 million. An additional \$0.1 million was related to legal and other employee related Realignment Plan expenses. Twenty-four employees were terminated with some payments extending into 2016, although the majority of the payments are expected to be made during 2015. The remaining restructuring expense consisted of \$0.4 million resulting from the sublease and related impairment.

Other Income (Expense)

Other income (expense) primarily consists of the realization of cumulative translation adjustment on substantially completing the liquidation of our wholly-owned United Kingdom subsidiary, PharmAthene UK Limited, changes in the fair value of our derivative financial instruments and interest expense on our debt and other financial obligations. For the three months ended September 30, 2015, other income was \$0.3 million compared to other expense of \$0.6 million for the three months ended September 30, 2014. For the nine months ended September 30, 2015 and 2014, other income was \$0.3 million.

In June 2015, we substantially completed the liquidation of our United Kingdom subsidiary, PharmAthene UK Limited, which we had acquired in 2008. Prior to substantially liquidating the UK subsidiary, currency fluctuations were recorded as foreign currency translation adjustments, a component of other comprehensive income. As a result of the substantially completed liquidation, we realized an approximate loss of \$0.2 million in our condensed consolidated statement of operations, which represents the amount of previously recorded foreign currency translation adjustments related to our UK subsidiary.

Other income related to the change in the fair value of our derivative instruments was \$0.4 million for the three months ended September 30, 2015, compared to other expense of \$0.6 million for the three months ended September 30, 2014. For the nine months ended September 30, 2015 and 2014, other income related to the change in the fair value of our derivative instruments was \$0.6 million and \$0.5 million, respectively. The fair value of our derivative instruments is estimated using the Black-Scholes option pricing model.

Income Taxes

The provision for income taxes was \$0.02 million and \$0.03 million for the three months ended September 30, 2015 and 2014, respectively. The provision for income taxes was \$0.05 million during the nine months ended September 30, 2015 and 2014. Our provision for income taxes results from the difference between the treatment of goodwill for income tax purposes and for U.S. GAAP.

Liquidity and Capital Resources

Overview

Our primary sources of cash during the three and nine months ended September 30, 2015 were the receipt of a \$5.8 million one-time payment as the result of an audit completed by BARDA, and proceeds paid under our contract with NIAID. Our primary sources of cash during the three and nine months ended September 30, 2014 were amounts paid under our development contract for SparVax[®] and proceeds from sales of shares of our common stock under the controlled equity offering arrangement. Our cash and cash equivalents were \$17.4 million and \$18.6 million at September 30, 2015 and December 31, 2014, respectively. We believe, based on the operating cash requirements and capital expenditures expected for 2015, the Company's cash on hand at September 30, 2015 is adequate to fund operations through at least the end of 2016.

In 2014, BARDA audited indirect costs or rates charged by us on the SparVax[®] contract for the years 2008 through 2013. We had billed and recognized revenue using the provisional rates as defined in the contract. As a result of that audit, we were able to record revenue of \$5.8 million in the first quarter of 2015, representing the difference between actual rates (i.e., actual cost to us) and the provisional rates used to calculate previously billed and recognized revenue. BARDA has started an audit of our 2014 costs related to the partial termination for convenience of the SparVax[®] contract. While we do not currently believe the results of this audit will have an adverse effect on the Company, we cannot provide assurances that it will not have such an effect; furthermore, in 2014, our actual rates exceeded our provisional rates. We also do not control the timing of the audit.

Our sole sources of revenue consist of (1) revenues related to the audit of the BARDA contract and (2) revenues under our September 2014 agreement with NIAID for the development of a next generation lyophilized anthrax vaccine based on the Company's proprietary technology platform which contributes the rPA bulk drug substance that is used in the liquid SparVax[®] formulation.

The NIAID agreement is incrementally funded. Over the base period of the agreement, we were awarded initial funding of approximately \$5.2 million, which includes a cost reimbursement component and a fixed fee component payable upon achievement of certain milestones. On September 10, 2015, NIAID exercised the first option under this agreement. The option provides additional funding of approximately \$2.3 million and an extension of the period of performance through September 30, 2016. The contract has a total value of up to approximately \$28.1 million, if all technical milestones are met and all eight contract options are exercised by NIAID. NIAID may exercise the options in its sole discretion. If NIAID exercises all options, the contract would continue approximately five years. If NIAID does not exercise any additional options, the contract would expire by its terms on September 30, 2016. Due to the current economic environment, the U.S. Government may be forced or choose to reduce or delay spending in the biodefense field, which would decrease the likelihood that the government will exercise its right to extend its existing contract with us, the likelihood of future government contract awards, and/or the likelihood that the government would procure products from us.

We have incurred significant losses since we commenced operations. As of September 30, 2015, we had accumulated losses of \$222.5 million since our inception. While we have undertaken efforts to reduce expenses, if we continue to incur losses and are not able to raise adequate funds to cover those losses, we may be required to cease operations.

Historically, we have not generated positive cash flows from operations. To bridge the gap between payments made to us under our U.S. Government contracts and grants and our operating and capital needs, we have had to rely on a variety of financing sources, including the issuance of equity and equity-linked securities and proceeds from loans and other borrowings. On March 25, 2013, we entered into a controlled equity offering arrangement pursuant to which we could offer and sell, from time to time, through a sales agent, shares of our common stock having an aggregate offering price of up to \$15.0 million, which we later amended on May 23, 2014 to increase the offering amount by \$15.0 million. During the three and nine months ended September 30, 2014, we generated net proceeds of approximately \$10.4 million and \$15.5 million, respectively, under the controlled equity offering sales agreement, as amended. During the three and nine months ended September 30, 2015, we did not sell any shares of our common stock under this arrangement. Aggregate gross proceeds of up to \$3.0 million remain available under this arrangement. We have no current plans to sell any shares under the controlled equity agreement.

On September 3, 2015, following a payment of \$81,347, representing a \$75,000 final payment fee pursuant to the March 30, 2012 Loan Agreement, \$10 outstanding principal balance, \$208 accrued interest, and \$6,129 legal fees of the lender, we satisfied in full our remaining obligation under our March 2012 Loan Agreement with GE Capital.

On March 9, 2015, our Board of Directors approved our Realignment Plan with the goal of preserving and maximizing, for the benefit of our stockholders, the value of any proceeds from the SIGA litigation and our existing biodefense assets. The plan eliminated approximately two-thirds of our workforce and aimed to preserve sufficient cash and cash equivalents to finance our continued operations through a period of time expected to extend beyond the adjudication of SIGA's appeal. We intend to maintain sufficient resources and personnel so that we can seek partners, co-developers or acquirers for our biodefense programs and continue to execute under our government contract with NIAID. The Company estimates total severance payments to executives and non-executives in connection with the Realignment Plan to amount to approximately \$2.0 million, with substantially all such severance expenses expected to be paid in 2015.

We can offer no assurances that we have correctly estimated the resources or personnel necessary to seek partners, co-developers or acquirers for our biodefense programs or execute under our NIAID contract. If a larger workforce or one with a different skillset is ultimately required to implement our Realignment Plan successfully, we may be unable to maximize the value of the SIGA litigation and our existing biodefense assets. In addition, executive officers who have served the Company for many years have been terminated, and, with the exception of Mr. Richman's continued service on the Board, will no longer be available to guide the Company. We also cannot assure you that we have accurately estimated the cash and cash equivalents necessary to finance our operations until SIGA's appeal has been adjudicated and we have received SIGA's payment, if we prevail on appeal. If revenues from our NIAID contract are less than we anticipate, if operating expenses exceed our expectations or cannot be adjusted accordingly, or if we have underestimated the time it will take for us to prevail in SIGA's appeal, or enforce payment of or collect the damages award from SIGA, if we do prevail, then our business, results of operations, financial condition and cash flows will be materially and adversely affected.

In addition, we may voluntarily elect to raise additional capital to strengthen our financial position. There can be no assurances that we would be successful in raising additional funds on acceptable terms or at all. Additional sales of common stock may be made at prices that are dilutive to existing stockholders.

Cash Flows

The following table provides information regarding our cash flows for the nine months ended September 30, 2015 and 2014:

	Nine months ended September 30,	
	2015	2014
Net cash provided by (used in):		
Operating activities	\$ (1,387,028)	\$ (4,951,585)
Investing activities	(60,677)	(84,269)
Financing activities	193,594	14,182,852
Effects of exchange rates on cash	169	(7,585)
Total (decrease) increase in cash and cash equivalents	<u>\$ (1,253,942)</u>	<u>\$ 9,139,413</u>

Operating Activities

Net cash used by operating activities was \$1.4 million and \$5.0 million for the nine months ended September 30, 2015 and 2014, respectively.

Net cash used by operating activities during the nine months ended September 30, 2015 reflects our net loss of \$2.2 million, adjusted for the realization of a cumulative translation adjustment of \$0.2 million, non-cash share-based compensation expense of \$0.4 million, the decrease in the fair value of our derivative instruments of \$0.6 million, and other non-cash expenses of \$0.1 million. Receivables (billed and unbilled) and prepaid expenses increased by \$0.3 million. Accounts payable decreased \$0.1 million, and accrued expenses and other liabilities increased by \$0.2 million. Accrued restructuring expenses were \$0.8 million.

Net cash used in operating activities during the nine months ended September 30, 2014 reflects our net loss of \$7.3 million, adjusted for non-cash share-based compensation expense of \$1.2 million and the decrease in the fair value of our derivative instruments of \$0.5 million. A decrease in receivables (billed and unbilled) of approximately \$3.3 million was offset by a decrease in liabilities and deferred revenue of \$1.6 million and \$0.3 million, respectively.

Investing Activities

There were no significant investing activities during the nine months ended September 30, 2015 and September 30, 2014.

Financing Activities

Net cash provided by financing activities was \$0.2 million and \$14.2 million for the nine months ended September 30, 2015 and 2014, respectively.

Net cash provided by financing activities during the nine months ended September 30, 2015 was primarily due to \$0.9 million in proceeds received from the issuance of common stock due to stock options exercised, partially offset by a \$0.8 million repayment of the term loan. Net cash provided by financing activities during the nine months ended September 30, 2014 was primarily due to net proceeds received of \$15.3 million from the sale of our common stock under the controlled equity offering arrangement and stock options exercised, and net proceeds received of \$0.7 million from the exercise of warrants. This was partially offset by a \$1.1 million repayment of the revolving credit agreement and \$0.8 million repayment of the term loan.

On March 25, 2013, we entered into a controlled equity offering sales agreement with a sales agent, and filed with the SEC a prospectus supplement, dated March 25, 2013, to our prospectus, dated July 27, 2011, or the 2011 Prospectus, pursuant to which we could offer and sell, from time to time, through the agent, shares of our common stock having an aggregate offering price of up to \$15.0 million. On May 23, 2014, we entered into an amendment, or the 2014 Amendment, to the controlled equity offering sales agreement with the sales agent, pursuant to which we may offer and sell, from time to time, through the agent, shares of our common stock having an aggregate offering price of up to an additional \$15.0 million. On that day, we filed a prospectus supplement to the 2011 Prospectus for use in any sales of these additional shares of common stock through July 26, 2014, the date the underlying registration statement (File No. 333-175394) expired. As a result of this expiration, the 2011 Prospectus, as supplemented on March 25, 2013 and May 23, 2014, may no longer be used for the sale of shares of common stock under the controlled equity offering sales agreement, as amended.

On May 23, 2014, we also filed a new universal shelf registration statement (File No. 333-196265) containing, among other things, a prospectus, or the 2014 Prospectus, for use in sales of the common stock under the 2014 Amendment. This registration statement was declared effective on May 30, 2014. Since the expiration of the 2011 Prospectus, all sales under the controlled equity offering sales agreement, as amended, have been effected under the 2014 Prospectus.

Under the controlled equity offering sales agreement, as amended, the agent may sell shares by any method permitted by law and deemed to be an “at-the-market” offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made directly on NYSE MKT, or any other existing trading market for our common stock or to or through a market maker. Subject to the terms and conditions of that agreement, the agent will use commercially reasonable efforts, consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of NYSE MKT, to sell shares from time to time based upon our instructions. We are not obligated to sell any shares under the arrangement. We are obligated to pay the agent a commission of 3.0% of the aggregate gross proceeds from each sale of shares under the arrangement.

During the first, second and third quarters of 2015, we did not generate any net proceeds under the controlled equity offering sales agreement, as amended. Aggregate gross proceeds of up to \$3.0 million remain available under this arrangement. We have no current plans to sell any shares under the controlled equity agreement.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

The following are contractual obligations at September 30, 2015:

Contractual Obligations ⁽¹⁾	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating facility leases	\$ 1,413,095	\$ 842,037	\$ 571,058	\$ -	\$ -
Research and development agreements	756,652	756,652	-	-	-
Total contractual obligations	\$ 2,169,747	\$ 1,598,689	\$ 571,058	\$ -	\$ -

(1) This table does not include any royalty payments relating to future sales of products subject to license agreements the Company has entered into in relation to its in-licensed technology, as the timing and likelihood of such payments are not known. The table also excludes any obligations related to registration rights agreements, as a result of a maintenance failure (as defined in such agreements), as the likelihood of any such payment is not probable.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's current operations in foreign countries are minimal. We had maintained only nominal operations in the United Kingdom, but those operations were substantially liquidated in the second quarter of 2015. A 10% change in exchange rates (against the U.S. dollar) would not have a material impact on earnings, fair values or cash flow.

Because of the short-term maturities of our cash and cash equivalents, we do not believe that an increase in market interest rates would have a significant impact on their realized value.

The change in fair value of our derivative instruments is calculated utilizing the Black-Scholes option pricing model; therefore, a 10% increase/decrease in the closing price of the Company's common stock at September 30, 2015, would result in a change in fair value of derivative instruments and our earnings of approximately \$0.07 million and \$0.06 million, respectively.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Our management, including our principal executive and principal financial officers, has evaluated any changes in our internal control over financial reporting that occurred during the quarterly period ended September 30, 2015, and has concluded that there was no change that occurred during the quarterly period ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Except as noted below, we are not a party to any material legal proceedings.

In December 2006, we filed a complaint against SIGA in the Delaware Court of Chancery. The complaint alleged, among other things, that we have the right to license exclusively the development and marketing rights for SIGA's drug candidate, Tecovirimat, pursuant to a merger agreement between the parties that was terminated in 2006. The complaint also alleged that SIGA failed to negotiate in good faith the terms of such a license pursuant to the terminated merger agreement with us.

In September 2011, the Delaware Court of Chancery issued an opinion in the case finding that SIGA had breached certain contractual obligations to us, upholding our claims of promissory estoppel, and awarding us damages. SIGA appealed aspects of the decision to the Delaware Supreme Court. In response, we cross-appealed other aspects of the decision. In May 2013, the Delaware Supreme Court issued its ruling on the appeal, affirming the Delaware Court of Chancery's finding that SIGA had breached certain contractual obligations to us, reversed its finding of promissory estoppel, and remanded the case back to the Delaware Court of Chancery to reconsider the remedy and award in light of the Delaware Supreme Court's opinion.

In August 8, 2014, the Delaware Court of Chancery issued a Memorandum Opinion and Order, or August 2014 Order, finding that we are entitled to receive lump sum expectation damages for the value of the Company's lost profits for Tecovirimat. In addition, the Delaware Court of Chancery found that the Company is entitled to receive pre-judgment interest and varying percentages of the Company's reasonable attorneys' and expert witness fees. On October 17, 2014, the Company and SIGA each filed opinions of our respective financial experts and Draft Orders and Judgments in accordance with the instructions of the August 2014 Order.

On September 16, 2014, SIGA announced that it filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. In connection therewith, SIGA filed with the Bankruptcy Court an affidavit indicating, among other things, that it expects to continue to perform under its contract with BARDA. SIGA's petition for bankruptcy initiated a process whereby its assets are protected from creditors, including us.

On January 7, 2015, the Delaware Court of Chancery issued a letter Opinion and Order, directing the Company to submit a Revised Proposed Judgment that reflects a lump sum award of approximately \$113 million in contract expectation damages, plus pre-judgment interest on that amount from 2006 through the date of such order. In accordance with the instructions of the court, the Company submitted a draft Revised Proposed Judgment under seal on January 9, 2015.

On January 15, 2015, the Delaware Court of Chancery issued a Final Order and Judgment, finding that we are entitled to receive a lump sum award of \$194.6 million, or the Total Judgment, comprised of (1) expectation damages of \$113.1 million, for the value of the Company's lost profits for Tecovirimat, also known as ST-246[®] (formerly referred to as "Arestvyr[™]" and referred to by SIGA in its recent SEC filings as "Tecovirimat"), plus (2) pre-judgment interest on that amount from 2006 and varying percentages of the Company's reasonable attorneys' and expert witness fees, totaling \$81.5 million. Under the Final Order and Judgment, PharmAthene is also entitled to post-judgment simple interest. PharmAthene's entitlement to interest from and after SIGA's bankruptcy filing may be negatively impacted by the Bankruptcy Code. SIGA filed a notice of appeal with the Delaware Supreme Court in which it challenges various findings of the Court of Chancery and seeks to set aside the Final Order and Judgment, and we filed a notice of cross-appeal. Subsequently, both SIGA and PharmAthene have filed appeals and reply briefs.

On October 7, 2015 oral arguments in SIGA's appeal and PharmAthene's cross-appeal of the January 15, 2015 Final Order and Judgment took place in the Delaware Supreme Court. There can be no assurances that the Delaware Supreme Court will rule in PharmAthene's favor, or that PharmAthene will receive any payments from SIGA. As a result, the decision could be reversed, remanded or otherwise changed.

There can be no assurances if or when the Company will receive any payments from SIGA as a result of the Judgment. SIGA has stated publicly that it does not currently have cash sufficient to satisfy the award. It is also uncertain whether SIGA will have such cash in the future. PharmAthene's ability to collect the Judgment depends upon a number of factors, including SIGA's financial and operational success, which is subject to a number of significant risks and uncertainties (certain of which are outlined in SIGA's filings with the SEC), as to which we have limited knowledge and which we have no ability to control, mitigate or fully evaluate. SIGA disclosed in its Current Report on Form 8-K filed April 29, 2015 that it entered into a modification to its contract with BARDA on April 29, 2015 to increase the provisional dosage of Tecovirimat and extend the delivery schedule. Furthermore, because SIGA has filed for protection under the federal bankruptcy laws, the Company is automatically stayed from taking any enforcement action in the Delaware Court of Chancery. By agreement of the parties, and with the approval of the Bankruptcy Court, the automatic stay has been lifted for the sole purpose of allowing the Delaware Court of Chancery to enter a money judgment and to allow the parties to exercise their appellate rights. The Company's ability to collect a money judgment from SIGA, if any, remains subject to further proceedings in the Bankruptcy Court.

Item 1A. Risk Factors

Investing in our securities involves risks. In addition to the other information in this quarterly report on Form 10-Q, stockholders and potential investors should carefully consider the risks and uncertainties discussed in the section titled "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2014. There have been no material changes to the risk factors included in the section titled "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Default upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Departure of Directors or Certain Officers; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

In connection with his services to the Company as its President and Chief Executive Officer, the Company entered into an employment agreement with John M. Gill (the "Employment Agreement"), dated as of November 5, 2015, for the period commencing on September 17, 2015 and initially ending on the first anniversary thereof. On each anniversary of the Employment Agreement, the term of the agreement automatically extends for an additional one-year period, unless either party provides the other party with 90 days' prior written notice of non-extension.

Pursuant to the Employment Agreement, among other customary terms, Mr. Gill: (i) will continue to be employed by the Company in the position of President and Chief Executive Officer; (ii) will receive a base salary of \$200,000 and a special lump sum bonus of \$50,000, for the period between September 17, 2015 to December 31, 2015; (iii) will receive a base salary of \$300,000 per year, subject to annual review and increase at the option of the Compensation Committee of the Board of Directors (the "Compensation Committee"), beginning in 2016 and for each year thereafter; (iv) will be eligible to receive, at the sole discretion of the Compensation Committee and the Board of Directors, an annual cash bonus of up to 50% of his base salary based on the achievement of certain pre-determined performance milestones established by the Compensation Committee and the Board of Directors, beginning in 2016; (v) will be granted an award (the "Incentive Compensation") of restricted stock award under the Company's 2007 Long-Term Incentive Plan for 612,244 shares of the Company's common stock (valued in the aggregate at \$900,000 based on the closing price of the Company's common stock on the NYSE MKT on September 17, 2015), which will vest upon the earliest to occur of (a) a "change in control," (b) each of three pre-determined milestones, or (c) the termination of Mr. Gill's employment for any reason other than (1) a termination for "cause" or (2) a "voluntary resignation."; (vi) will receive, if terminated without cause or for "good reason" or upon a written notice of non-extension, (a) unpaid salary, housing allowance and expenses, (b) payment of a pro-rata portion of the \$50,000 bonus for services rendered in 2015, (c) payment of a pro-rata portion of the annual cash bonus and (d) if, upon the occurrence of a "change of in control," the Incentive Compensation; (vii) will continue to be provided with corporate housing in the Annapolis, Maryland area comparable to that previously provided; (viii) will be required to devote an average of three days per week to the business of the Company; (ix) will be entitled to receive reimbursements for certain expenses, in accordance with the practices of the Company in effect from time to time; and (x) will be subject to certain work-for-hire, confidentiality, non-disparagement and non-competition covenants.

Item 6. Exhibits

No.	Description
31.1	Certification of Principal Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
31.2	Certification of Principal Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350
(101)	The following condensed consolidated financial statements from the PharmAthene, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015, formatted in Extensive Business Reporting Language ("XBRL"): (i) Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2015 and 2014, (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (v) Notes to consolidated financial statements.
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

SIGNATURES

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

PHARMATHENE, INC.

Dated: November 6, 2015

By: /s/ John M. Gill

Name: John M. Gill

Title: President and Chief Executive Officer

Dated: November 6, 2015

By: /s/ Philip MacNeill

Name: Philip MacNeill

Title: Vice President, Chief Financial Officer, Treasurer and Secretary

**Certification of Principal Executive Officer
Pursuant to SEC Rule 13a-14(a)/15d-14(a)**

I, John M. Gill, certify that:

1. I have reviewed this Form 10-Q of PharmAthene, Inc. for the period ended September 30, 2015;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 6, 2015

/s/ John M. Gill

Name: John M. Gill

Title: President and Chief Executive Officer

**Certification of Principal Financial Officer
Pursuant to SEC Rule 13a-14(a)/15d-14(a)**

I, Philip MacNeill, certify that:

1. I have reviewed this Form 10-Q of PharmAthene, Inc. for the period ended September 30, 2015;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 6, 2015

/s/ Philip MacNeill

Name: Philip MacNeill

Title: Vice President, Chief Financial Officer, Treasurer and Secretary

**Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code**

In connection with the Quarterly Report on Form 10-Q of PharmAthene, Inc. (the "Company") for the period ended September 30, 2015, as filed with the Securities and Exchange Commission (the "Report"), I, John M. Gill, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John M. Gill

Name: John M. Gill

Title: President and Chief Executive Officer

November 6, 2015

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification is being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

**Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code**

In connection with the Quarterly Report on Form 10-Q of PharmAthene, Inc. (the "Company") for the period ended September 30, 2015, as filed with the Securities and Exchange Commission (the "Report"), I, Philip MacNeill, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Philip MacNeill

Name: Philip MacNeill

Title: Vice President, Chief Financial Officer, Treasurer and Secretary

November 6, 2015

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification is being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.
