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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

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	**20-2726770**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Park Place, Suite 450, Annapolis, Maryland	**21401**
(Address of principal executive offices)	(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer x
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) Emerging Growth Company ☐	Smaller Reporting Company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 April 28, 2017 was 68,815,195.

PHARMATHENE, INC.

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Part I —FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements.

PHARMATHENE, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,782,402	$ 153,994,922
Short-term investments	-	66,810,962
Billed accounts receivable	241,873	301,824
Unbilled accounts receivable	798,855	697,321
Income tax receivable	1,001,315	-
Prepaid expenses and other current assets	467,642	464,797
Total current assets	18,292,087	222,269,826
Property and equipment, net	87,937	120,944
Goodwill	2,348,453	2,348,453
Total assets	$ 20,728,477	$ 224,739,223
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 839,465	$ 926,529
Dividends payable	-	197,083,993
Accrued expenses and other liabilities	1,339,618	2,083,472
Accrued income tax payable	-	3,157,563
Accrued restructuring expenses	43,909	109,126
Other short-term liabilities	11,588	11,588
Derivative instruments	-	1,465,272
Total current liabilities	2,234,580	204,837,543
Other long-term liabilities	442,589	442,589
Total liabilities	2,677,169	205,280,132
Stockholders' equity:		
Common stock, $0.0001 par value; 100,000,000 shares authorized; 68,815,195 and 67,726,458 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	6,882	6,773
Additional paid-in capital	50,111,875	49,323,222
Accumulated other comprehensive loss	-	(1,052)
Accumulated deficit	(32,067,449)	(29,869,852)
Total stockholders' equity	18,051,308	19,459,091
Total liabilities and stockholders' equity	$ 20,728,477	$ 224,739,223

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

PHARMATHENE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2017	**2016**
Contract revenue	$ 804,071	$ 1,005,694
Operating expenses:		
Research and development	725,797	1,029,131
General and administrative	3,228,590	1,193,298
Depreciation	33,007	37,701
Total operating expenses	3,987,394	2,260,130
Loss from operations	$ (3,183,323)	$ (1,254,436)
Other (expense) income:		
Interest income (expense), net	74,977	(1,050)
Change in fair value of derivative instruments	(90,191)	39,898
Other (expense) income	(375)	4,119
Total other (expense) income	(15,589)	42,967
Loss before income taxes	(3,198,912)	(1,211,469)
Income tax benefit (provision)	1,001,315	(15,437)
Net loss	$ (2,197,597)	$ (1,226,906)
Basic and diluted net loss per share	$ (0.03)	$ (0.02)
Weighted-average shares used in calculation of basic and diluted net loss per share	68,737,093	64,404,396

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 March 31,	
	2017	**2016**
Net loss	$ (2,197,597)	$ (1,226,906)
Other comprehensive income:		
Unrealized gain on available-for-sale investments	1,052	-
Comprehensive loss	$ (2,196,545)	$ (1,226,906)

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

PHARMATHENE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2017	**2016**
Operating activities		
Net loss	$ (2,197,597)	$ (1,226,906)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	66,180	181,921
Change in fair value of derivative instruments	90,191	(39,898)
Depreciation expense	33,007	37,701
Deferred income taxes	-	15,437
Amortization of premium and discount on short-term investments	12,663	-
Non-cash interest expense	1,416	5,485
Changes in operating assets and liabilities:		
Billed accounts receivable	59,951	341,671
Unbilled accounts receivable	(101,534)	(303,475)
Income tax receivable	(1,001,315)	-
Prepaid expenses and other current assets	(2,845)	(282,160)
Accounts payable	(87,064)	(354,765)
Accrued restructuring expenses	(66,633)	(196,716)
Accrued expenses and other liabilities	(744,222)	466,563
Accrued income taxes payable	(3,157,563)	-
Net cash used in operating activities	(7,095,365)	(1,355,142)
Investing activities		
Proceeds from sales of available-for-sale investments	66,799,351	-
Purchases of property and equipment	-	(150)
Net cash provided by (used in) investing activities	66,799,351	(150)
Financing activities		
Dividends paid	(200,252,217)	-
Proceeds from exercise of warrants	1,473,513	-
Proceeds exercise of stock options	861,830	23,237
Other	-	(885)
Net cash (used in) provided by financing activities	(197,916,874)	22,352
Effects of exchange rates on cash and cash equivalents	368	(1,252)
Decrease in cash and cash equivalents	(138,212,520)	(1,334,192)
Cash and cash equivalents, at beginning of year	153,994,922	15,569,813
Cash and cash equivalents, at end of period	$ 15,782,402	$ 14,235,621
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$ 3,157,563	$ -

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

PHARMATHENE, INC.

Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2017

Note 1 - Business and Liquidity

We have been engaged in the biodefense business since our inception in 2001.

On January 18, 2017, PharmAthene, entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”), pursuant to which its wholly owned subsidiary, Mustang Merger Sub, Inc., will be merged with and into Altimmune, Inc., a Delaware corporation (“Altimmune”), with Altimmune as the surviving subsidiary (“Merger 1”), and immediately thereafter, Altimmune will be merged with and into Mustang Merger Sub LLC, with Mustang Merger Sub LLC as the surviving entity in such merger (“Merger 2”, and together with Merger 1, the “Mergers”). Following the consummation of the Mergers, PharmAthene will change its name to “Altimmune, Inc.”.

On May 4, 2017, in connection with the Merger Agreement, PharmAthene will be holding a special meeting of stockholders to consider and vote upon the following proposals: (i) to approve the issuance of shares of PharmAthene common stock in the Mergers; (ii) to approve and adopt the Merger Agreement; (iii) to approve an amendment of PharmAthene's Certificate of Incorporation, to effect a reverse stock split prior to the effective time of the Mergers at a ratio (the “Reverse Ratio”) of not less than 1-for-10 and not more than 1-for-75, with the exact Reverse Ratio to be finally determined and mutually agreed to by the PharmAthene and Altimmune Boards of Directors; (iv) to approve the 2017 Omnibus Incentive Plan; and (v) to adjourn the special meeting, if necessary or advisable, to solicit additional proxies if there are not sufficient votes in favor of any of the proposals. For additional details regarding the Mergers and Merger Agreement, please refer to PharmAthene's Registration Statement on Form S-4 (File No. 333-215891) and related proxy statement/prospectus/consent solicitation (the "Proxy/Prospectus") filed with the U.S. Securities and Exchange Commission (the "SEC"), which PharmAthene also mailed to its stockholders.

Pursuant to the terms and conditions of the Merger Agreement, at the effective time of Merger 1 (the “Effective Time”), each of Altimmune’s outstanding shares of common stock and preferred stock (excluding Altimmune treasury shares, shares of Altimmune owned by PharmAthene or its subsidiaries or dissenting shares) will be converted into the right to receive a number of shares of PharmAthene common stock such that the holders of outstanding equity of Altimmune immediately prior to the Effective Time will own 58.2% of the outstanding equity of PharmAthene immediately following the Effective Time and holders of outstanding equity of PharmAthene immediately prior to the Effective Time will own 41.8% of the outstanding equity of PharmAthene immediately following the Effective Time (the “Exchange Ratio”), in each case, on an as converted and fully diluted basis. No fractional shares of PharmAthene common stock will be issued in connection with the Mergers as a result of the conversion described above, and any fractional share of PharmAthene common stock that would thereby be issuable will be rounded up to the next whole share. In addition, all outstanding Altimmune options, as well as Altimmune’s 2001 Employee Stock Option Plan and its Non-Employee Stock Option Plan, each as amended from time to time, will be assumed by PharmAthene. Each option or warrant to purchase one share of Altimmune common stock will be converted into an option or warrant, as the case may be, to purchase a number of shares of PharmAthene common stock representing the number of Altimmune shares for which the exchanged option or warrant was exercisable multiplied by the Exchange Ratio. The exercise price will be proportionately adjusted.

The Merger Agreement provides that at, and immediately after, the Effective Time the size of PharmAthene’s Board of Directors will initially consist of seven directors. This board will be comprised of four directors designated by Altimmune and three directors designated by PharmAthene. Altimmune’s current Chief Executive Officer, Bill Enright, is expected to serve as the Chief Executive Officer of the combined company, and Altimmune’s current Chief Financial Officer, Elizabeth Czerepak, is expected to serve as its Chief Financial Officer.

On September 9, 2014, PharmAthene signed a contract with the National Institutes of Allergy and Infectious Diseases (“NIAID") for the development of a next generation lyophilized anthrax vaccine (“SparVax-L”) based on the Company's proprietary technology platform which contributes the recombinant protective antigen (“rPA”) bulk drug substance that is used in the liquid SparVax® formulation. The contract is incrementally funded. Over the base period of the contract, PharmAthene was 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. NIAID exercised four options under this agreement to provide additional funding of approximately $8.8 million and an extension of the period of performance through December 31, 2017. The contract could have had a total value of up to approximately $28.1 million, if all technical milestones were met and all eight contract options were exercised by NIAID. PharmAthene has been informed by NIAID that it will exercise only one of the additional remaining options under the contract to provide funding for a non-human primate challenge study which PharmAthene believes may be used to support an advanced development funding proposal to the Biomedical Advanced Research and Development Authority (“BARDA”). Work under all exercised options will continue bringing total committed and final funding under the NIAID contract to $15.1 million.

Between 2006 and 2016, we were engaged in legal proceedings with SIGA Technologies, Inc. (“SIGA”). On December 23, 2015, the Delaware Supreme Court affirmed the Delaware Court of Chancery’s judgment against SIGA which provided an estimated total award of approximately $208.7 million plus additional interest. We received approximately $217.1 million from SIGA during the year ended December 31, 2016, comprised of principal payments of approximately $208.7 million as final satisfaction of the judgment and $8.4 million of payments calculated by SIGA as interest on the judgment.

On February 3, 2017, the Company paid a one-time special cash dividend of $2.91 per share. The special dividend, totaling an aggregate payment of approximately $200.3 million, represents approximately 98% of the after tax net cash proceeds, received from SIGA.

As of March 31, 2017, our cash and cash equivalents balance was $15.8 million, our accounts receivable (billed and unbilled) balance was $1.0 million and our current liabilities were $2.2 million. We believe, based on the operating cash requirements and capital expenditures expected for 2017, the Company’s cash on hand at March 31, 2017, is adequate to fund operations for at least the next twelve months from the date of this report.

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, 2016 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 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, 2016, 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, deferred tax assets, liabilities and valuation allowances, income tax receivable from the carryback of net operating losses, the expected economic life and value of our tangible assets and value of our indefinite lived intangible asset, 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.

Comprehensive Loss and Accumulated Other Comprehensive Loss

Comprehensive loss includes the total of our net loss and all other changes in equity, other than transactions with owners, which for the periods presented includes changes in equity for unrealized losses on available-for-sale securities.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates fair value and include investments in U.S. Government money market. We consider all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents. The Company maintains cash balances with financial institutions in excess of insured limits. The Company does not anticipate any losses on such cash balances.

Short-Term Investments

Investments are classified as available-for-sale pursuant to the accounting standards for investments in debt and equity securities. Investments with maturities of less than one year are classified as short-term and consist of investment grade U.S. Treasury debt securities and government-sponsored enterprise debt securities, all of which were fully matured at March 31, 2017. Investments are carried at fair value with unrealized gains and losses included as a component of other comprehensive income (loss), until such gains and losses are realized. If a decline in the fair value is considered other-than-temporary, based on available evidence, the unrealized loss is transferred from other comprehensive income to the statement of operations. Management reviews investments for other-than-temporary impairment whenever the fair value of an investment is less than the amortized cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. We assess the risk of impairment related to securities held in our investment portfolio on a regular basis. We had no remaining short-term investments at March 31, 2017.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents, short-term investments, and billed and unbilled accounts receivable. We maintain our cash and cash equivalents in the form of U.S. Government money market accounts. Because our billed and unbilled accounts receivable consist of amounts due from the U.S. Government, there is minimal credit risk.

Significant Customers and Accounts Receivable

Our primary customer is NIAID. As of March 31, 2017 and December 31, 2016, the Company's billed and unbilled receivables balances were comprised primarily of receivables from NIAID. The receivable balances are reported at amounts expected to be collected in future periods. The Company has determined that no allowance for doubtful accounts for the receivables from NIAID is necessary given the circumstances.

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 assessments date) to the net book value of our equity. If our market value exceeds our net book value, no further analysis is required. 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.

Accrued Restructuring Expense

The remaining accrued liability relating to our restructuring expense as of March 31, 2017 is as follows:

Description	Balance as of December 31, 2016	Amortized 2017	Balance as of March 31, 2017
Accrued sublease expense	$ 109,126	$ 65,217	$ 43,909
Total accrued restructuring expense	$ 109,126	$ 65,217	$ 43,909

Fair Value of 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 prior to exercise 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 cost-plus-fee 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.

Milestones are 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.

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. If there is assurance that collection is reasonably assured, then revenue is taken as if the contract was a cost-plus-fee contract.

Collaborative Arrangements

Even though most of our products are being developed in conjunction with support by the U.S. Government, we are an active participant in that development, with exposure to significant risks and rewards of commercialization relating to the development of these pipeline products. In collaborations where we are deemed to be the principal participant of the collaboration, we recognize costs and revenues generated from third parties using the gross basis of accounting; otherwise, we use the net basis of accounting. Cost paid to us by other collaborative arrangement members are recognized pursuant to their terms.

Research and Development

Research and development costs are expensed as incurred; up-front payments are deferred and expensed as performance occurs. Research and development costs include salaries, facilities expense, overhead expenses, material and supplies, preclinical expense, clinical trials and related clinical manufacturing expenses, share-based compensation expense, contract services and other outside services.

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, which 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 requisite service period.

The fair value of stock options granted to consultants is determined at the grant date using the Black-Scholes option-pricing model and is remeasured at each quarterly reporting date over the requisite service period. The value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period.

The fair value of restricted stock grants granted to employees and non-employee directors 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.

The fair value of restricted stock grants granted to consultants is determined based on the closing price of our common stock on the award date, is remeasured at each quarterly reporting date and is recognized as expense ratably over the requisite service period.

Employee share-based compensation expense recognized in the three months ended March 31, 2017 and 2016 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures at a rate of approximately 12%, based on historical forfeitures.

Share-based compensation expense for the three months ended March 31, 2017 and 2016 was as follows:

	Three Months Ended March 31,	
	2017	2016
Research and development	$ 8,070	$ 29,293
General and administrative	58,110	152,633
Total share-based compensation expense	$ 66,180	$ 181,926

During the three months ended March 31, 2017 and 2016, we made no stock option or restricted stock grants. At March 31, 2017, we had total unrecognized share-based compensation expense related to unvested awards of approximately $0.3 million net of estimated forfeitures, which we expect to recognize as expense over a weighted-average period of 1.5 years.

The 2007 Long-Term Incentive Compensation Plan (the “2007 Plan”) terminated in January 2017. In connection with the proposed Merger with Altimmune, the Board of Directors has adopted a new omnibus plan, subject to approval of our stockholders.

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.

The Company recorded an income tax benefit (provision) of $1.0 million and $(0.02) million for the three month periods ended March 31, 2017 and 2016, respectively. The 2016 receipt of the award from SIGA generated substantial 2016 taxable income to the Company, a portion of which was offset by the Company's domestic net operating loss carryforwards ("NOLs"). For the tax year ending December 31, 2016, the Company paid approximately $8.7 million in federal income tax and $2.5 million in state income tax.

Pursuant to federal and state tax regulations with respect to carryback periods of NOLs, in 2017 the Company anticipates being able to carryback NOLs to 2016, which the Company expects will allow it to recover previously paid federal and state income taxes. These anticipated refunds generated through March 31, 2017 are reflected as an income tax benefit during the quarter ended March 31, 2017. The Company recognized as income tax expense during the quarter ended March 31, 2016 tax amortization of goodwill.

Basic and Diluted Net Loss Per Share

Loss per share: Basic loss per share is computed by dividing consolidated net 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 potential 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 potential dilutive common shares is anti-dilutive due to the net losses.

Our unvested restricted shares contain non-forfeitable rights to dividends, and therefore are considered to be participating securities. There were no unvested restricted shares outstanding as of March 31, 2017.

Approximately 1.6 million and 6.2 million potential dilutive securities have been excluded in the calculation of diluted net loss per share in the three months ended March 31, 2017 and 2016, respectively, because their inclusion would be anti-dilutive.

Recent Accounting Pronouncements Adopted

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Income Taxes. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We have adopted ASU No. 2015-17 on January 1, 2017 on a retrospective basis; the adoption did not have a material effect on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation simplifying the accounting for and financial statement disclosure of stock-based compensation awards. Under the guidance, all excess tax benefits and tax deficiencies related to stock-based compensation awards are to be recognized as income tax expenses or benefits in the income statement and excess tax benefits should be classified along with other income tax cash flows in the operating activities section of the statement of cash flows. Under the guidance, companies can also elect to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. In addition, the guidance amends some of the other stock-based compensation awards guidance to more clearly articulate the requirements and cash flow presentation for withholding shares for tax-withholding purposes. The guidance is effective for reporting periods beginning after December 15, 2016 and early adoption is permitted. We adopted this standard on January 1, 2017. The adoption of the standard did not have a material impact on our financial statements. We elected to adopt the cash flow presentation of the excess tax benefits prospectively, commencing with our cash flow statement for the three months ended March 31, 2017. We have elected to continue to estimate the number of stock-based awards expected to vest, rather than electing to account for forfeitures as they occur to determine the amount of compensation cost to be recognized in each period. There was no impact to our computation of dilutive EPS as all securities were considered anti-dilutive.

Recent Accounting Pronouncements Pending Adoption

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU No. 2014-09"). ASU No. 2014-09 supersedes the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue arising from contracts with customers. In August 2015, the FASB issued guidance approving a one-year deferral, making the standard effective for reporting periods beginning after December 15, 2017, with early adoption permitted only for reporting periods beginning after December 15, 2016. In March 2016, the FASB issued guidance to clarify the implementation guidance on principal versus agent considerations for reporting revenue gross rather than net, with the same deferred effective date. In April 2016, the FASB issued guidance to clarify the identification of performance obligations and licensing arrangements. In May 2016, the FASB issued guidance to clarify the collectability criterion, the presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and required disclosures for entities that retrospectively apply Topic 606 to each prior reporting period. In January 2017, the FASB issued amendments to the FASB Accounting Standards Codification which impacts the disclosure that recently issued ASUs will have on the financial statements when the standards are adopted in a future period. In February 2017, the FASB issued guidance to clarify other income – gains and losses from the derecognition of nonfinancial assets, and to add guidance for partial sales of nonfinancial assets. In preparation for the adoption of the new standard, we have begun to evaluate our existing arrangement; however, have not yet determined the impact of the new standard on our consolidated financial statements or whether we will adopt on a prospective or retrospective basis.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this Update supersedes Topic 840, Leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For public companies, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of adopting ASU No. 2016-02 on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. For public companies that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of adopting ASU No. 2016-13 on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The amendments in this Update address the classification of certain cash receipts and cash payments in the statement of cash flows, including related to debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance, and distributions received from equity method investees. The guidance is effective for reporting periods beginning after December 15, 2017 and early adoption is permitted. The guidance must be adopted on retrospective basis and must be applied to all periods presented, but may be applied prospectively if retrospective application would be impracticable. We are currently evaluating the impact, if any, that this guidance will have on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other. The amendments in this Update provide guidance on the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The guidance is effective for reporting periods beginning after December 15, 2020 and early adoption is permitted. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact, if any, that this guidance will have on our consolidated financial statements.

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.

Assets and Liabilities 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 March 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Balance**
Financial Assets				
Cash equivalents	$ 16,160,498	$ -	$ -	$ 16,160,498
Total financial assets measured at fair value	$ 16,160,498	$ -	$ -	$ 16,160,498

	As of December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Balance**
Financial Assets				
Cash equivalents	$ 11,972,733	$ 141,869,024	$ -	$ 153,841,757
Short-term investments	-	66,810,962	-	66,810,962
Total financial assets measured at fair value	$ 11,972,733	$ 208,679,986	$ -	$ 220,652,719
Financial Liabilities				
Current portion of derivative instruments related to stock purchase warrants	$ -	$ -	$ 1,465,272	$ 1,465,272
Total financial liabilities measured at fair value	$ -	$ -	$ 1,465,272	$ 1,465,272

The Company's cash equivalents are comprised of U.S. Treasury money market funds and government-sponsored enterprise debt securities with original maturities of three months or less when purchased. The Company's short-term investments are comprised of U.S. Treasury securities and government sponsored enterprise securities, which at the time of purchase, had a maturity of greater than three months. These investments have been initially valued at the transaction price and subsequently valued at the end of each reporting period, utilizing other market observable data.

During the three months ended March 31, 2017, derivative instruments related to stock purchase warrants exercisable for 903,996 shares of common stock were exercised. The fair value of the exercised stock purchase warrants at the time of exercise was approximately $1.6 million.

The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities for the three months ended March 31, 2017 and 2016:

Description	Balance as of December 31, 2016	Unrealized Losses 2017	Exercised Stock Purchase Warrants 2017	Balance as of March 31, 2017
Derivative liabilities related to stock purchase warrants	$ 1,465,272	$ 90,191	$ (1,555,463)	$ -

Description	Balance as of December 31, 2015	Unrealized (Gains) 2016	Exercised Stock Purchase Warrants 2016	Balance as of March 31, 2016
Derivative liabilities related to stock purchase warrants	$ 508,202	$ (39,898)	$ -	$ 468,304

At March 31, 2017, the Company did not have any remaining derivative liabilities. At March 31, 2016, derivative liabilities were comprised of warrants to purchase 1,275,419 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. 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 our unaudited condensed consolidated statements of operations.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company measures its long-lived assets, including, property and equipment, intangible assets and goodwill, at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. (See Note 2- *Summary of Significant Accounting Policies*). As of March 31, 2017, the Company had no other assets or liabilities that were measured at fair value on a non-recurring basis.

Note 4 - Commitments and Contingencies

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 finalized incurred cost audits with DCAA for 2006 through 2011. BARDA audited indirect costs or rates charged by us on the SparVax® contract for the years 2008 through 2014.

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 Securities and Exchange Commission 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.

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.

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 March 31, 2017, 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.

Leases

We lease our office in Maryland under a 10 year operating lease, which commenced on May 1, 2007 and was originally scheduled to end on May 31, 2017. On April 3, 2017, an amendment was made to extend the term of the lease to July 31, 2017. Remaining annual minimum payments are $0.2 million.

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 at an amount less than the Company's leased amount through May 31, 2017.

The present value at March 31, 2017 of the Company's remaining net lease liability for the subleased office space (net of the sublease rental income) is $43,909 and is reflected on the balance sheet as accrued restructuring expenses.

License Agreements

On July 6, 2015, we signed a license agreement with ImmunoVaccine Technologies ("IMV") for the exclusive use of the DepoVax^{TM} vaccine platform ("DPX"), to develop an anthrax vaccine utilizing PharmAthene's rPA. On June 23, 2016, we terminated this license agreement.

Note 5 - Stockholders' Equity

Special Dividend

On February 3, 2017, the Company paid a special one-time dividend of $2.91 per share of common stock, totaling approximately $200.3 million, which represents approximately 98% of the after tax net cash proceeds, received from SIGA.

Stockholder Rights Plan

On November 25, 2015, the Company's Board of Directors adopted a stockholder rights plan ("Rights Plan") in an effort to preserve the value of its NOLs under Section 382 of the Code. The Rights Plan was terminated by the Board on March 10, 2017.

Long-Term Incentive Compensation Plan

In 2007, the Company's stockholders approved 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 2007 Plan and adding an evergreen provision pursuant to which the number of shares authorized for issuance under the 2007 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 2007 Plan did not automatically increase on January 1, 2015, or thereafter.

The 2007 Plan terminated in January 2017. In connection with the proposed Merger with Altimmune, the Board of Directors has adopted a new omnibus incentive plan, subject to approval of our stockholders.

During the three months ended March 31, 2017, stock options were exercised for 184,741 shares of common stock, and stock options exercisable for 8,557 shares of common stock expired. Prior to the expiration of the 2007 Plan, there were approximately 10.3 million shares approved for issuance under the 2007 Plan, of which approximately 3.4 million shares were 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 March 31, 2017 and 2016 there were warrants outstanding to purchase 46,584 and 1,422,781 shares of our common stock, respectively. The warrants outstanding as of March 31, 2017, all of which are exercisable, were as follows:

Number of Common Shares Underlying Warrants	Issue Date/Exercisable Date	Exercise Price	Expiration Date
46,584(1)	March 2012/March 2012	$ 1.61	March 2022
46,584			

(1) These warrants to purchase common stock are classified as equity.

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 and will expire on May 30, 2017, three years from its effective date. 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 March 31, 2017, shares having an aggregate offering price of $3.0 million remained available under the controlled equity offering sales agreement, as amended. During the three months ended March 31, 2017, we did not sell any shares of our common stock under this arrangement. We have no current plans to sell any shares under the controlled equity agreement.

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 ability to successfully consummate the Mergers with Altimmune, Inc., as contemplated by the Merger Agreement,*
- *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 the National Institutes of Allergy and Infectious Diseases, or NIAID,*
- *our ability to satisfy certain milestones under our September 2014 contract with NIAID that would entitle us to receive additional funding over the period of the agreement,*
- *our ability in 2017 to realize an income tax benefit of $1.0 million related to a 2016 NOL carryback,*
- *delays caused by third parties challenging government contracts awarded to us,*
- *unforeseen safety and efficacy issues,*
- *accomplishing any future strategic partnerships or business combinations,*
- *our ability to continue to satisfy the listing requirements of the NYSE MKT, or any market on which our securities may trade,*

as well as risks detailed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our other reports filed with the U.S. Securities and Exchange Commission, or the SEC, from time to time.

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:

- *potential payments under government contracts or grants,*
- *potential future government contracts or grant awards,*
- *potential regulatory approvals,*
- *potential consummation of future strategic partnerships or business combinations, such as the Mergers,*
- *future product advancements, and*
- *anticipated financial or operational results.*

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.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements which present our results of operations for the three months ended March 31, 2017 and 2016, as well as our financial positions at March 31, 2017 and December 31, 2016, 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, 2016, filed on March 14, 2017, including the consolidated financial statements contained therein.

Overview

We are a biotechnology company engaged in developing a next generation anthrax vaccine. The next generation vaccine is intended to have more rapid time to protection, fewer doses for protection and less stringent requirements for temperature controlled storage and handling than the currently used vaccine.

Merger Agreement and Special Meeting

On January 18, 2017, we entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”), pursuant to which our wholly owned subsidiary, Mustang Merger Sub, Inc., will be merged with and into Altimmune, Inc., a Delaware corporation (“Altimmune”), with Altimmune as the surviving subsidiary (“Merger 1”), and immediately thereafter, Altimmune will be merged with and into Mustang Merger Sub LLC, with Mustang Merger Sub LLC as the surviving entity in such merger (“Merger 2”, and together with Merger 1, the “Mergers”). Following the consummation of the Mergers, we will change our name to “Altimmune, Inc.”.

On May 4, 2017, in connection with the Merger Agreement, we will be holding a special meeting of our stockholders to consider and vote upon the following proposals: (i) to approve the issuance of shares of PharmAthene common stock in the Mergers; (ii) to approve and adopt the Merger Agreement; (iii) to approve an amendment of PharmAthene's Certificate of Incorporation, to effect a reverse stock split prior to the effective time of the Mergers at a ratio (the “Reverse Ratio”) of not less than 1-for-10 and not more than 1-for-75, with the exact Reverse Ratio to be finally determined and mutually agreed to by the PharmAthene and Altimmune Boards of Directors; (iv) to approve the 2017 Omnibus Incentive Plan; and (v) to adjourn the special meeting, if necessary or advisable, to solicit additional proxies if there are not sufficient votes in favor of any of the proposals. For additional details regarding the Mergers and Merger Agreement, please refer to our Registration Statement on Form S-4 (File No. 333-215891) and related proxy statement/prospectus/consent solicitation (the "Proxy/Prospectus") filed with the SEC, and mailed to our stockholders.

SIGA Litigation

Between 2006 and 2016, we were engaged in legal proceedings with SIGA. On December 23, 2015, the Delaware Supreme Court affirmed the Delaware Court of Chancery's judgment against SIGA. We received approximately $217.1 million including interest from SIGA during the year ended December 31, 2016.

On November 25, 2015, the Company adopted a Shareholders Rights Plan to help ensure that the NOLs remain available to help maximize the value for our shareholders of any amount received from the SIGA litigation. The Rights Plan was terminated by the Board on March 10, 2017.

Special Dividend

On February 3, 2017, the Company paid a one-time special cash dividend of $2.91 per share of PharmAthene common stock, totaling approximately $200.3 million, which represents approximately 98% of the after tax net cash proceeds, received from SIGA.

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.

A summary of our critical accounting policies, including those that require the use of significant estimates and judgment, follows. A more comprehensive description of all of our significant accounting policies is contained in Note 2 to our Unaudited Condensed Consolidated Financial Statements.

There were no significant changes in critical accounting policies from those at December 31, 2016.

Results of Operations

Revenue

We recognized revenue of $0.8 million and $1.0 million during the three months ended March 31, 2017 and 2016, respectively. Our revenue during those periods was derived primarily from our existing contract with NIAID for the development of SparVax-L. Revenue recognized to date under this contract is $10.3 million.

Research and Development Expenses

Our research and development expenses were $0.7 million and $1.0 million for the three months ended March 31, 2017 and 2016, respectively. These expenses resulted from research and development activities in all periods related primarily to our anthrax vaccine programs. Direct expenses included salaries and other costs of personnel, raw materials and supplies, and an allocation of indirect expenses. We also incurred third-party costs, such as contract research, consulting, and clinical development costs for individual projects.

For the three months ended March 31, 2017, research and development expenses decreased $0.3 million from the same period in 2016. This decrease is primarily due to efforts associated with a stability program related to the NIAID contract which were ongoing during the first quarter of 2016; however, were no longer active during the same period in 2017. Similarly, internal research and development expenses for a tech transfer and the preparation of an engineering batch were at a point of high activity during the first quarter of 2016.

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. For each function, we may incur expenses such as salaries, supplies and third-party consulting and other external costs and non-cash expenditures such as expense related to stock option and restricted share awards. An allocation of indirect costs such as facilities, utilities, and other administrative overhead is also included in general and administrative expenses.

Expenses associated with general and administrative functions were $3.2 million for the three months ended March 31, 2017 and $1.2 million for the three months ended March 31, 2016. The $2.0 million increase from the same period in the prior year was primarily due to transaction costs relating to the proposed Mergers, professional fees, and labor costs.

Other (Expense) Income

For the three months ended March 31, 2017, other expense primarily consists of changes in the fair value of our derivative financial instruments partially offset by interest income from our short-term investments. For the three months ended March 31, 2016, other expense was $0.04 million and was primarily the result of unrealized gains on the change in the fair value of the derivative instruments.

Income Taxes

Income tax benefit was $1.0 million for the three months ended March 31, 2017 which consisted of a tax benefit related to losses generated through March 31, 2017 which the Company will be able to carryback to offset income taxes paid in 2016.

Income tax expense was $0.02 million the three months ended March 31, 2016, relating to the difference between the treatment of goodwill for income tax purposes and for U.S. GAAP purposes.

Liquidity and Capital Resources

Overview

Our primary sources of cash during the three months ended March 31, 2017 were $0.7 million in proceeds received under our contract with NIAID and $2.3 million in combined proceeds received from the issuance of common stock upon the exercise of outstanding stock purchase warrants and stock options. Our primary source of cash during the comparable period in 2016 was $1.0 million in proceeds received under our contract with NIAID. Our cash and cash equivalents were $15.8 million at March 31, 2017. We believe, based on the operating cash requirements and capital expenditures expected for 2017, the Company's cash on hand at March 31, 2017, is adequate to fund operations through at least the next twelve months from the date of this report.

Our sole source of revenue consists of revenues under our contract with NIAID for the development SparVax-L.

The NIAID contract is incrementally funded. Over the base period of the contract, PharmAthene was 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. NIAID exercised four options under this agreement to provide additional funding of approximately $8.8 million and an extension of the period of performance through December 31, 2017. The contract could have had a total value of up to approximately $28.1 million, if all technical milestones were met and all eight contract options were exercised by NIAID. PharmAthene has been informed by NIAID that it will exercise only one of the additional remaining options under the contract to provide funding for a non-human primate challenge study which PharmAthene believes may be used to support an advanced development funding proposal to the Biomedical Advanced Research and Development Authority ("BARDA"). Work under all exercised options will continue bringing total committed and final funding under the NIAID contract to $15.1 million.

We have incurred significant losses since we commenced operations. As of March 31, 2017, we had accumulated losses of $32.1 million since our inception.

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 the SIGA litigation. 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 months ended March 31, 2017, 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.

Cash Flows

The following table provides information regarding our cash flows for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	**2016**
Net cash provided by (used in):		
Operating activities	$ (7,095,365)	$ (1,355,142)
Investing activities	66,799,351	(150)
Financing activities	(197,916,874)	22,352
Effects of exchange rates on cash	368	(1,252)
Total decrease in cash and cash equivalents	$ (138,212,520)	$ (1,334,192)

Operating Activities

Net cash used in operating activities was $7.1 million for the three months ended March 31, 2017 compared to $1.4 million which was used in operating activities for the three months ended March 31, 2016.

Net cash used in operating activities during the three months ended March 31, 2017 reflects our net loss of $2.2 million, adjusted for $0.1 million of combined share-based compensation expense and other non-cash expenses, and a decrease in the fair value of our derivative instruments of $0.1 million. Increases in income tax receivable and unbilled accounts receivable of $1.0 million and $0.1 million, respectively, were offset by a decrease in billed receivables of approximately $0.06 million. Accounts payable, accrued expenses and other liabilities and accrued restructuring expenses decreased by a combined $0.9 million. Accrued income taxes payable decreased $3.2 million.

Net cash used in operating activities during the three months ended March 31, 2016 reflects our net loss of $1.2 million, adjusted for non-cash share-based compensation expense of $0.2 million, the decrease in the fair value of our derivative instruments of $0.04 million, and other non-cash expenses of $0.06 million. A decrease in billed receivables of approximately $0.3 million was offset by a $0.3 million increase in both unbilled receivables and prepaid expenses and other current assets. Accounts payable and accrued expenses and other liabilities increased by a combined $0.1 million and accrued restructuring expenses decreased by $0.2 million.

Investing Activities

During the three months ended March 31, 2017, net cash provided by investing activities was $66.8 million resulting from the sale of short-term investments. There were no significant investing activities during the three months ended March 31, 2016.

Financing Activities

Net cash used in financing activities was $197.9 million for the three months ended March 31, 2017, as compared to $0.02 million provided by financing activities for the three months ended March 31, 2016.

Net cash used in financing activities during the three months ended March 31, 2017 was primarily due to the $200.3 million payment of the special dividend offset by combined net proceeds received of $2.3 million from the issuance of common stock due to the exercise of stock purchase warrants and stock options.

Net cash provided by financing activities during the three months ended March 31, 2016 was primarily due to net proceeds received of $0.02 million from the issuance of common stock due to the exercise of stock options.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

The following are contractual commitments at March 31, 2017:

Contractual Obligations[1]	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating facility leases[2]	$ 221,768	$ 221,768	$ -	$ -	$ -
Research and development agreements	2,221,064	2,221,064	-	-	-
Total contractual obligations	$ 2,442,832	$ 2,442,832	$ -	$ -	$ -

(1) This table does not include any royalty payments relating to any future sales of products subject to license agreements we have entered into in relation to our 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. See additional discussion in Note 7 – *Commitments and Contingencies* in the consolidated financial statements.

(2) Lease obligations have not been reduced by the minimum sublease rentals of $0.02 million due in the future under noncancellable subleases.

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 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.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2017, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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 March 31, 2017, and has concluded that there was no change that occurred during the quarterly period ended March 31, 2017 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.

None.

Item 1A. Risk Factors.

None.

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.

Not applicable.

Item 5. Other Information.

None.

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 March 31, 2017, formatted in Extensive Business Reporting Language ("XBRL"): (i) Condensed Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016, (ii) Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2017 and 2016, (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016, 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
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements 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: May 3, 2017

By: /s/ John M. Gill
Name: John M. Gill
Title: President and Chief Executive Officer

Dated: May 3, 2017

By: /s/ Philip MacNeill
Name: Philip MacNeill
Title: Chief Financial Officer, Treasurer and Secretary

Exhibit 31.1

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 March 31, 2017;

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: May 3, 2017

/s/ John M. Gill
Name: **John M. Gill**
Title: **President and Chief Executive Officer**

Exhibit 31.2

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 March 31, 2017;

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: May 3, 2017

/s/ Philip MacNeill
Name: **Philip MacNeill**
Title: **Vice President, Chief Financial Officer, Treasurer and Secretary**

Exhibit 32.1

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 March 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), I, John M. Gill, President and 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
John M. Gill
President and Chief Executive Officer
May 3, 2017

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.

Exhibit 32.2

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 March 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), I, Philip MacNeill, Chief Financial Officer, Treasurer and Secretary 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
Philip MacNeill
Vice President, Chief Financial Officer, Treasurer and Secretary
May 3, 2017

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.