UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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, MD	**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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of the registrant's Common Stock, par value $0.0001 per share, outstanding as of August 1, 2012 was 48,365,984.

PHARMATHENE, INC.

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Item 1. Financial Statements

PHARMATHENE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,776,921	$ 11,236,771
Accounts receivable (billed)	3,444,830	4,424,442
Unbilled accounts receivable	4,786,304	3,021,208
Prepaid expenses and other current assets	675,047	830,585
Restricted cash	-	100,000
Total current assets	20,683,102	19,613,006
Property and equipment, net	625,534	788,666
Other long term assets and deferred costs	150,479	53,384
Goodwill	2,348,453	2,348,453
Total assets	$ 23,807,568	$ 22,803,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,062,718	$ 1,445,700
Accrued expenses and other liabilities	3,141,947	3,169,642
Current portion of long term debt	454,548	-
Total current liabilities	5,659,213	4,615,342
Other long term liabilities	564,860	449,709
Long term debt, less current portion	1,983,544	-
Derivative instruments	2,054,505	1,886,652
Total liabilities	10,262,122	6,951,703
Stockholders' equity:		
Common stock, $0.0001 par value; 100,000,000 shares authorized; 48,345,984 and 48,236,172 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	4,835	4,824
Additional paid-in-capital	209,662,510	208,525,917
Accumulated other comprehensive income	1,003,989	1,010,522
Accumulated deficit	(197,125,888)	(193,689,457)
Total stockholders' equity	13,545,446	15,851,806
Total liabilities and stockholders' equity	$ 23,807,568	$ 22,803,509

See the accompanying notes to the unaudited condensed consolidated financial statements.

PHARMATHENE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Revenue	$ 6,316,998	$ 6,428,840	$ 12,466,050	$ 12,766,562
Operating Expenses:				
Research and development	4,918,655	5,984,098	9,624,012	11,804,472
General and administrative	2,780,099	3,409,372	5,728,580	8,349,026
Depreciation and amortization	76,448	116,690	162,358	234,319
Total operating expenses	7,775,202	9,510,160	15,514,950	20,387,817
Loss from operations	(1,458,204)	(3,081,320)	(3,048,900)	(7,621,255)
Other income (expense):				
Interest income	4,819	3,381	7,807	6,535
Interest expense	(111,353)	(15,173)	(114,381)	(30,608)
Other income (expense)	519	(32,722)	53,434	(44,628)
Change in fair value of derivative instruments	823,809	688,221	(167,853)	3,176,686
Total other income (expense)	717,794	643,707	(220,993)	3,107,985
Net loss before income taxes	(740,410)	(2,437,613)	(3,269,893)	(4,513,270)
Income tax expense	(16,133)	-	(166,538)	-
Net loss	$ (756,543)	$ (2,437,613)	$ (3,436,431)	$ (4,513,270)
Basic and diluted net loss per share	$ (0.02)	$ (0.05)	$ (0.07)	$ (0.10)
Weighted average shares used in calculation of basic and diluted net loss per share	48,325,945	46,631,396	48,297,919	46,454,968

See the accompanying notes to the unaudited condensed consolidated financial statements.

PHARMATHENE, INC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Net loss	$ (756,543)	$ (2,437,613)	$ (3,436,431)	$ (4,513,270)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(19,902)	13,771	(6,533)	(9,292)
Comprehensive loss	$ (776,445)	$ (2,423,842)	$ (3,442,964)	$ (4,522,562)

See the accompanying notes to the unaudited condensed consolidated financial statements.

PHARMATHENE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	2012	**2011**
Operating activities		
Net loss	$ (3,436,431)	$ (4,513,270)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt recovery	-	(400,695)
Change in fair value of derivative instruments	167,853	(3,176,686)
Depreciation and amortization expense	162,358	234,319
Gain on the disposal of property and equipment	(66,626)	-
Share-based compensation expense	1,060,705	1,255,325
Deferred income taxes	166,538	-
Non-cash interest expense	40,470	-
Changes in operating assets and liabilities:		
Accounts receivable	979,612	760,274
Unbilled accounts receivable	(1,765,096)	1,114,139
Prepaid expenses and other current assets	248,707	1,611,860
Accounts payable	617,014	(674,723)
Accrued expenses and other liabilities	(87,483)	404,230
Net cash used in operating activities	(1,912,379)	(3,385,227)
Investing activities		
Purchases of property and equipment	-	(30,364)
Proceeds from the sale of property and equipment	67,400	-
Net cash provided by (used in) investing activities	67,400	(30,364)
Financing activities		
Proceeds from issuance of long term debt	2,500,000	-
Deferred financing costs	(216,460)	-
Change in restricted cash requirements	100,000	-
Proceeds from issuance of common stock and warrants	38,983	5,862,558
Other	(32,960)	(64,362)
Net cash provided by financing activities	2,389,563	5,798,196
Effects of exchange rates on cash	(4,434)	(7,334)
Increases in cash and cash equivalents	540,150	2,375,271
Cash and cash equivalents, at beginning of period	11,236,771	11,785,327
Cash and cash equivalents, at end of period	$ 11,776,921	$ 14,160,598
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 73,911	$ 30,608
Noncash financing activity		
Warrants issued to lender in connection with loan	$ 69,876	$ -

See the accompanying notes to the unaudited consolidated financial statements.

Note 1 - Organization and Business

We are a biopharmaceutical company focused on developing biodefense countermeasure applications. We are subject to those risks associated with any biopharmaceutical company that has substantial expenditures for research and development. There can be no assurance that our research and development projects will be successful, that products developed will obtain necessary regulatory approval, or that any approved product will be commercially viable. In addition, we operate in an environment of rapid technological change and are largely dependent on the services and expertise of our employees, consultants and other third parties.

Historically, we have performed under government contracts and grants and raised equity, equity-linked and debt capital from investors and lenders to sustain our operations.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements include the accounts of PharmAthene, Inc. and its wholly-owned subsidiaries PharmAthene Canada, Inc. and PharmAthene UK Limited, collectively referred to herein as "PharmAthene", "we", "us", "our" or the "Company." All significant intercompany transactions and balances have been eliminated in consolidation. Our 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 unaudited condensed consolidated balance sheet at December 31, 2011 has been derived from audited consolidated financial statements at that date. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission. We believe that the disclosures provided herein are adequate to make the information presented not misleading when these 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, 2011, filed with the Securities and Exchange Commission. We currently operate in one business segment. Certain amounts within current assets in the 2011 financial statements have been reclassified to conform to the current year's presentation.

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. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of our wholly owned foreign subsidiaries located in Canada and the United Kingdom is their local currency. Assets and liabilities of our foreign subsidiaries are translated into United States dollars based on exchange rates at the end of the reporting period. Income and expense items are translated at the weighted average exchange rates prevailing during the reporting period. Translation adjustments are accumulated in a separate component of stockholders' equity. Transaction gains or losses are included in the determination of net loss.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market value. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revolving Line of Credit & Term Loan

As discussed in Note 6, we entered into a loan agreement with General Electric Capital Corporation ("GE Capital") in March 2012. As part of that agreement, we issued stock purchase warrants to GE Capital that expire in March 2022. The fair value of the warrants was charged to additional paid-in capital, resulting in a debt discount at the date of issuance. The debt discount is being amortized over the term of the loan agreement using the effective interest method. Financing costs incurred in connection with this agreement are being amortized over the term of the agreement using the effective interest method.

Significant Customers and Accounts Receivable

Our primary customers are the Biomedical Advanced Research and Development Authority ("BARDA"), the U.S. Department of Defense (the "DoD"), and the National Institutes of Health ("NIH"). As of June 30, 2012 and December 31, 2011, the Company's trade receivable and unbilled receivable balances were comprised solely of receivables from these customers.

Revenue Recognition

We generate our revenue from different types of contractual arrangements: cost-plus-fee contracts, cost reimbursable grants and fixed price contracts. Costs consist primarily of direct subcontractor and internal labor charges incurred plus an allocation of fringe benefits, overhead and general and administrative expenses as defined in each contract.

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, pursuant to the terms of the cost-plus fee contract, 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: (1) 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, (2) it relates solely to past performance, and (3) 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; the remaining portion of the milestone payment is deferred and recognized as revenue as the Company completes its performance obligations.

For fixed price contracts without substantive milestones as described above, revenue is recognized on the percentage-of-completion method in accordance with the applicable accounting guidance for long term contracts. The percentage-of-completion method recognizes income as the contract progresses; recognition of revenue and profits generally related to the costs incurred in providing the services required under the contract. The use of the percentage-of-completion method depends on the ability to make reasonable dependable estimates. The fact that circumstances may necessitate frequent revision of estimates does not indicate that the estimates are unreliable for the purpose for which they are used. Estimating is an integral part of our business activities, and there may be a necessity to revise estimates on contracts continually as the work progresses. As a result, amounts invoiced may differ from revenue recognized. Amounts invoiced to customers in excess of revenue recognized are reflected on the balance sheet as deferred revenue, a component of accrued expenses and other liabilities. We recorded approximately $19 thousand and $0.5 million as deferred revenue as of June 30, 2012 and December 31, 2011.

As revenue is recognized in accordance with the terms of the contracts, related amounts are recorded as unbilled accounts receivable in our consolidated balance sheets. As specific contract invoices are generated and sent to our customers in accordance with a contract, invoiced amounts are transferred out of unbilled accounts receivable and into billed accounts receivable. Invoicing frequency and payment terms for cost-plus-fee contracts with our customers are defined within each contract, but are typically monthly invoicing with 30-60 day payment cycles.

We analyze each cost reimbursable grant to determine whether we should report such reimbursements as revenue or as an offset to our expenses incurred. For the three months ended June 30, 2012 and 2011, we recorded approximately $0.4 million and $0.1 million, respectively, of costs reimbursed by the government as an offset to research and development expenses. For the six months ended June 30, 2012 and 2011, we recorded approximately $1.0 million and $0.4 million, respectively, of costs reimbursed by the government as an offset to research and development expenses.

Share-Based Compensation

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

Employee share-based compensation expense recognized in the three months ended June 30, 2012 and 2011 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures at a rate of approximately 12% for both 2012 and 2011, based on historical forfeitures.

Share-based compensation expense for the three months ended June 30, 2012 and 2011 was:

	2012	2011
Research and development	$ 127,076	$ 216,997
General and administrative	384,965	327,703
Total share-based compensation expense	$ 512,041	$ 544,700

During the three months ended June 30, 2012, we granted 185,000 options to employees and nonemployee directors and made no restricted stock grants. During the three months ended June 30, 2011, we granted 208,000 options to employees and nonemployee directors and made no restricted stock grants. At June 30, 2012, we had total unrecognized share-based compensation expense related to unvested awards of approximately $2.9 million, net of estimated forfeitures, which we expect to recognize as expense over a weighted-average period of 2.1 years.

Share-based compensation expense for the six months ended June 30, 2012 and 2011 was:

	2012	2011
Research and development	$ 244,143	$ 458,431
General and administrative	816,562	796,894
Total share-based compensation expense	$ 1,060,705	$ 1,255,325

During the six months ended June 30, 2012, we granted 200,948 options to employees and nonemployee directors and made no restricted stock grants. During the six months ended June 30, 2011, we granted 304,000 options to employees and nonemployee directors and made no restricted stock grants.

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. For interim periods, we recognize an income tax provision (benefit) based on an estimated annual effective tax rate expected for the entire year, plus or minus discrete income tax amounts. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized. We also recognize a tax benefit from uncertain tax positions only if it is "more likely than not" that the position is sustainable based on its technical merits. Our policy is to recognize interest and penalties on uncertain tax positions as a component of income tax expense. We consider discontinued operations for purposes of determining the amount of tax benefits that result from a loss from continuing operations.

Income tax expense was approximately $16 thousand and $0.2 million for the three and six months ended June 30, 2012, respectively. No income tax expense was recorded in 2011. Income tax expense in 2012 resulted from the difference between the treatment of goodwill for income tax purposes and for U.S. GAAP. The Company recorded a deferred tax liability, which cannot offset deferred tax assets, and a corresponding income tax expense. This deferred tax liability is included in our condensed consolidated balance sheet in other noncurrent liabilities.

Basic and Diluted Net Loss Per Share

Basic loss per share is computed by dividing consolidated net loss by the weighted average number of shares of common stock outstanding during the quarter, 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 dilutive potential common shares resulting from stock options and stock purchase warrants is determined by applying the treasury stock method.

For the periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all potentially dilutive shares of common stock is anti-dilutive due to the net losses. A total of approximately 11.6 million and approximately 10.9 million potential dilutive shares have been excluded in the calculation of diluted net loss per share in the three and six months ended June 30, 2012 and 2011, respectively, because their inclusion would be anti-dilutive.

Recent Accounting Pronouncements

We have evaluated all Accounting Standards Updates through the date the unaudited condensed consolidated financial statements were issued and believe the adoption of these will not have a material impact on our results of operations or financial position.

Note 3 - Fair Value Measurements

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.

The following table sets forth a summary of changes in the fair value of our Level 3 liabilities for the six months ended June 30, 2012:

Description	Balance as of December 31, 2011	Unrealized Losses	Balance as of June 30, 2012
Derivative liabilities related to warrants	$ 1,886,652	$ 167,853	$ 2,054,505

The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities for the six months ended June 30, 2011:

Description	Balance as of December 31, 2010	New Liabilities in 2011	Unrealized (Gains)	Balance as of June 30, 2011
Derivative liabilities related to warrants	$ 8,362,995	$ 668,640	$ (3,176,686)	$ 5,854,949

At June 30, 2012 and 2011, derivative liabilities are comprised of 2,899,991 warrants to purchase common stock accounted for as a derivative. The warrants are considered to be derivative liabilities due to the presence of net settlement features, including cash settlement in certain circumstances, and 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. Gains and losses on the fair value adjustments for these derivative instruments are classified in other expenses as the change in fair value of derivative instruments in our condensed consolidated statements of operations. The $0.2 million change in the market value of derivative instruments during the six-month period ended June 30, 2012 is due primarily to the change in the closing price of our stock, which was $1.27 per share as of December 30, 2011 and $1.39 per share as of June 30, 2012. The $3.2 million change in the market value of derivative instruments during the six-month period ended June 30, 2011 is due primarily to the change in the closing price of our stock, which was $4.23 per share as of December 31, 2010 and $2.94 per share as of June 30, 2011.

Note 4 - Commitments and Contingencies

SIGA Litigation

In December 2006, we filed a complaint against SIGA Technologies, Inc. ("SIGA") in the Delaware Court of Chancery. The complaint alleged, among other things, that we have the right to license exclusively development and marketing rights for SIGA's drug candidate, ST-246® (Tecovirimat), pursuant to a merger agreement between the parties that was terminated in 2006. The complaint also alleged that SIGA failed to negotiate in good faith the terms of such a license pursuant to the terminated merger agreement.

In September 2011, the Court issued an opinion in the case finding that SIGA had breached certain contractual obligations to us and upholding our claims of promissory estoppel. The Court awarded us the right to receive 50% of all net profits related to the sale of ST-246® and related products for 10 years following initial commercial sale of the drug once SIGA earns $40 million in net profits from the sale of ST-246® and related products. The Court also awarded us one-third of our reasonable attorney's fees and expert witness fees, which amounts to approximately $2.4 million. In May 2012, the Court issued its final judgment. Both parties are appealing aspects of the decision to the Delaware Supreme Court.

We can provide no assurances that SIGA will not prevail on its appeal, that we will be successful in our appeal, and that the Delaware Supreme Court will not overturn the trial court's decision awarding us a 10 year 50% net profit of the sales of ST-246® and related products (once SIGA retains the first $40 million in net profit). We have not yet recorded any amount due from SIGA in relation to this case.

Government Contracting

Payments to the Company on cost-plus-fee contracts are provisional and are subject to adjustment upon audit by the Defense Contract Audit Agency and BARDA. In our opinion, adjustments that may result from audits are not expected to have a material effect on our financial position, results of operations, or cash flows.

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 shares underlying the convertible notes and related warrants, which registration statements have been declared effective. We are obligated to maintain the registration statements effective until the date when all shares underlying the convertible notes and related warrants (and any other securities issued or issuable with respect to in exchange for such shares) have been sold. The convertible notes were converted or extinguished in 2010, although the related warrants remain outstanding.

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 June 30, 2012, 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 would be approximate $0.2 million for each month until the failure, if it occurs, is cured.

Note 5 - Stockholders' Equity

Long-Term Incentive Plan

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

At that time, we reserved 3,500,000 shares of common stock in connection with awards to be granted under the 2007 Plan, including those awards that had originally been made under a prior plan. In 2008, the Company's shareholders approved amendments to the 2007 Plan, increasing the maximum number of shares authorized for issuance under the plan to 4,600,000 and adding an evergreen provision pursuant to which the number of shares authorized for issuance under the plan will increase automatically in each year, beginning in 2009 and continuing through 2015, according to certain limits set forth in the 2007 Plan. At June 30, 2012, there are approximately 8.2 million shares approved for issuance under the 2007 Plan, of which approximately 1.6 million shares are available to be issued. The Board of Directors in conjunction with management determines who receives awards, the vesting conditions, and the exercise price. Stock options issued under the 2007 Plan may have a maximum term of ten years.

Warrants Classified as Equity

In connection with the July 2009 private placement, we issued warrants to purchase an aggregate of 2,572,775 shares of the Company's common stock at an exercise price of $2.50 per share. The warrants will expire on January 28, 2015. Also outstanding are warrants to purchase an aggregate of 100,778 shares of common stock at $3.97 per share, which will expire on March 30, 2017.

In connection with the March 30, 2012, debt financing (see Note 6), we issued warrants to purchase an aggregate of 46,584 shares of the Company's common stock at an exercise price of $1.61 per share to GE Capital. The warrants expire on March 30, 2022.

Note 6 – Financing Transactions

On March 30, 2012, we entered into a Loan and Security Agreement (the "Loan Agreement") with General Electric Capital Corporation ("GE Capital"), as lender and agent for other lenders that may subsequently become party to the agreement. The Loan Agreement provides for a senior secured debt facility including a $2.5 million term loan and a revolving line of credit of up to $5 million based on our outstanding qualified accounts receivable. On March 30, 2012, the term loan was funded for an aggregate amount of $2.5 million. The initial draw on the revolving line of credit was for approximately $0.9 million on March 30, 2012. The revolving line of credit was repaid during the second quarter; therefore, no borrowings under the revolving line of credit were outstanding as of June 30, 2012. Under the terms of the Loan Agreement, the Company may draw down from the revolving line of credit up to 85% of qualified billed accounts receivable and 80% of qualified unbilled accounts receivable. As of June 30, 2012, approximately $0.1 million was available under the Loan Agreement to borrow against the revolving line of credit as we worked to finalize customary post-closing arrangements to implement GE Capital's security interest in our receivables. These security interest arrangements were implemented in July 2012.

The fixed interest rate on the term loan is 10.14% per annum. The revolving line of credit has an adjustable interest rate based upon 3-month London Interbank Offered Rate (LIBOR), with a floor of 1.5%, plus 5%. As of June 30, 2012, this interest rate was 6.5%. Both the term loan and the revolving line of credit mature in September 2015. Payments on the term loan are interest-only for the first 10 months, which may be extended to 12 months if certain conditions described in the Loan Agreement are met. Subsequently, the term loan will fully amortize over its remaining term. Principal payments on the term loan are scheduled as follows:

Year	Principal Payments
2012	-
2013	$ 909,096
2014	$ 909,096
2015	$ 681,808
	$ 2,500,000

If we prepay the term loan and terminate the revolving line of credit prior to the scheduled maturity date, we are obligated to pay a prepayment premium equal to 3% of the then outstanding principal amount of the term loan during the first two years of the loan and 2% during the third year and thereafter. In addition we are obligated to pay a final payment fee of 3% of the term loan balance. The final payment fee will be accrued and expensed over the term of the agreement, utilizing the effective interest method.

Our obligations under the Loan Agreement are collateralized by a security interest in substantially all of our assets including cash, receivables and property and equipment. While the security interest does not, except in limited circumstances, cover our intellectual property, it does cover any proceeds to us from the use or sale of intellectual property.

The Loan Agreement contains customary representations, warranties and covenants, including limitations on acquisitions, dispositions, incurrence of indebtedness and the granting of security interests. The representations, warranties and covenants contained in the Loan Agreement were made only for purposes of such agreement and as of a specific date or specific dates, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the Loan Agreement.

The Loan Agreement contains certain financial and non-financial covenants. Upon the occurrence and during the continuance of any event of default, GE Capital may, and at the written request of the requisite lenders shall, terminate the commitments under the facilities and declare any or all of the obligations to be immediately due and payable, without demand or notice to us; however, any event of default relating to timely payment of debts, insolvency, liquidation, bankruptcy or similar events will result in automatic acceleration. Among the remedies available to GE Capital in case of an event of default are the taking possession and disposition of any collateral under the Loan Agreement.

In connection with the Loan Agreement, we issued GE Capital warrants to purchase 46,584 shares of the Company’s common stock at an exercise price of $1.61 per share, subject to customary anti-dilution adjustments. The warrants are classified as equity. The fair value of the warrants at March 30, 2012 of $69,876 was recorded as a discount to the carrying value of the debt and is being amortized through interest expense over the term of the loan.

Also, in connection with us entering into the Loan Agreement, we incurred approximately $216,000 of related expenses. These expenses are deferred and are being amortized to interest expense over the term of the Loan Agreement.

In June 2011, PharmAthene entered into an agreement with certain accredited investors who purchased an aggregate of 1,857,143 shares of common stock for a purchase price of $3.50 per share and warrants to purchase up to an additional 371,423 shares of common stock. The warrants became exercisable immediately at an exercise price of $3.50 per share until the fifth anniversary of the date of issuance, which is June 15, 2016. The Company received gross proceeds of approximately $6.5 million and net proceeds of approximately $5.8 million.

Note 7 – Subsequent Events

On July 31, 2012, the DoD exercised its option to continue to fund *an advanced expression* system for the bioproduction of PharmAthene’s rBChE nerve agent medical countermeasure program, under a contract initially awarded in 2011. The value of the option was $2.5 million out of a potential total contract value of $5.7 million.

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, risk associated with the following:

- *the reliability of the results of the studies relating to human safety and possible adverse effects resulting from the administration of the Company's product candidates,*
- *funding delays, reductions in or elimination of U.S. government funding and/or non-renewal of expiring funding for one or more of our development programs,*
- *the award of government contracts to our competitors or delays caused by third parties challenging government contract awards to us,*
- *unforeseen safety issues,*
- *challenges related to the development, technology transfer, scale-up, and/or process validation of manufacturing processes for our product candidates,*
- *unexpected determinations that these product candidates prove not to be effective and/or capable of being marketed as products,*

as well as risks detailed under the caption "Risk Factors" in our Report on Form 10-K for the year ended December 31, 2011 and in our other reports filed with the U.S. Securities and Exchange Commission (the "SEC") from time to time thereafter. In particular, there can be no assurance, that SIGA Technologies, Inc. ("SIGA") will not prevail in its appeal, or that we will be successful in our appeal of certain aspects of the decision, to the Delaware Supreme Court of the ruling of the Delaware Court of Chancery awarding PharmAthene 50% of all net profits related to the sale of ST-246® and related products for 10 years following initial commercial sale of the drug once SIGA earns $40 million in net profits from the sale of ST-246® and related products. Further, the timing and amount of any future sales of ST-246® is uncertain. Significant additional non-clinical animal studies, human clinical trials, and manufacturing development work remain to be completed for all our products candidates. Future government funding to support the development of Valortim® is unlikely in the near term and remains uncertain. It is also uncertain whether any of our product candidates will be shown to be safe and effective and approved by regulatory authorities for use in humans. Forward-looking statements describe management's current expectations regarding our future plans, strategies and objectives and are generally identifiable by use of the words "may," "will," "should," "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 about potential future government contract or grant awards,*
- *potential payments under government contracts or grants,*
- *potential regulatory approvals,*
- *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 and six months ended June 30, 2012 and 2011, as well as our financial positions at June 30, 2012 and December 31, 2011, 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, 2011, filed on March 8, 2012, including the consolidated financial statements contained therein.

Overview

We are a biodefense company engaged in the development and commercialization of next generation medical countermeasures against biological and chemical threats. Our current biodefense portfolio includes the following product candidates:

- SparVax™, a next generation recombinant protective antigen ("rPA") anthrax vaccine,
- rBChE (recombinant butyrylcholinesterase) bioscavanger, a medical countermeasure for nerve agent poisoning by organophosphorous compounds, including nerve gases and pesticides, and
- Valortim®, a fully human monoclonal antibody for the prevention and treatment of anthrax infection.

In addition, we were awarded by the Delaware Court of Chancery in September 2011 the right to receive 50% of all net profits related to the sale of SIGA Technologies, Inc. ST-246® and related products for 10 years following initial commercial sale of the drug once SIGA earns $40 million in net profits from sales of ST-246® and related products. In May 2012, the Court issued its final judgment. Both parties are appealing aspects of the decision to the Delaware Supreme Court.

Critical Accounting Policies

A "critical accounting policy" is one that is both important to the portrayal of our financial condition and results of operations and that requires management's most difficult, subjective or complex judgments. Such judgments are often the result of a need to make estimates about the effect of matters that are inherently uncertain. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. We believe that the disclosures provided herein are adequate to make the information presented not misleading when these 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 years ended December 31, 2010 and 2011, filed with the Securities and Exchange Commission.

There were no significant changes in critical accounting policies from those at December 31, 2011.

Results of Operations

Revenue

We recognized revenue of $6.3 million and $6.4 million during the three months ended June 30, 2012 and 2011, respectively. We recognized revenue of $12.5 million and $12.8 million during the six months ended June 30, 2012 and 2011, respectively.

Our revenue was derived primarily from contracts with the U.S. government for the development of SparVax™, and our rBChE bioscavanger and in the 2011 periods for Valortim® as well. Our revenue in the three and six months ended June 30, 2012 changed from the comparable periods of 2011 primarily due to the following:

- Under our contract for the development of SparVax™, we recognized approximately $6.1 million and $5.3 million of revenue for the three months ended June 30, 2012 and 2011, respectively and approximately $11.3 million and $10.8 million of revenue for the six months ended June 30, 2012 and 2011, respectively. During the three and six months ended June 30, 2012 revenue for the Company's SparVax™ program was primarily attributable to the initiation of Bulk Drug Substance (BDS) Process Characterization to prepare for validation activities, further progression in the development of bioanalytical and analytical assays and the achievement of several contract milestones. Revenue for the six months ended June 30, 2012 is also attributable to work related to the manufacture of final drug product of SparVax™ as well as activities related to the Phase 2 clinical trial planned to commence later in 2012 and the completion of certain activities related to the development of analytical assays and ongoing stability programs for BDS and Final Drug Product. Milestone revenue received for the achievement of key technical milestones for the three and six months ended June 30, 2012 was $0.4 million and $1.3 million, respectively. During the three and six months ended June 30, 2011 revenue was primarily attributable to work related to the manufacturing platform for SparVax™ and additional activities related to the establishment of analytical and stability-indicating assays for characterization of the product, including the receipt of $0.9 million in connection with the achievement of key technical milestones under our SparVax™ development contract for the three months ended June 30, 2011 and $2.2 million for the six months ended June 30, 2011.

- We recognized approximately $0.2 million and $1.0 million related to work on our second generation rBChE bioscavanger in the three and six months ended June 30, 2012 under the August 2011 fixed price contract with the DoD for the development of advanced expression system for rBChE. No revenue was recognized for the second generation rBChE bioscavanger in the three and six months ended June 30, 2011.

- Under our contracts for the advanced development of Valortim®, we recognized no revenue in the three month period ended June 30, 2012 and $1.1 million of revenue for the three month period ended June 30, 2011, and $0.1 million and $1.9 million of revenue for the six months ended June 30, 2012 and 2011, respectively. Revenue in 2012 primarily reflects completion of activities under our 2007 contract with National Institute of Allergy and Infectious Diseases (“NIAID”) for Valortim®, which ended in accordance with its terms in the first quarter 2012, and certain work related to non-clinical and analytical assay development work to support further development of this product candidate. Additional government funding for Valortim® is unlikely during government fiscal year 2012, which ends September 30, 2012. There can be no assurance we will be successful in obtaining additional financial support for this program.

Research and Development Expenses

Our research and development expenses were $4.9 million and $6.0 million for the three months ended June 30, 2012 and 2011, respectively and $9.6 million and $11.8 million for the six months ended June 30, 2012 and 2011. These expenses resulted from research and development activities in both periods related to our SparVax™ program as well as from activities related to Valortim® primarily in the 2011 period and the rBChE bioscavanger primarily in the 2012 period. 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, including contract research, consulting and clinical development costs for individual projects. Research and development expenses for the three months ended June 30, 2012 and 2011 were net of cost reimbursements under certain of our government grants of $0.4 million and $0.1 million, respectively. Research and development expenses for the six months ended June 30, 2012 and 2011 were net of cost reimbursements under certain of our government grants of $1.0 million and $0.4 million, respectively.

Research and development expenses for the three and six months ended June 30, 2012 and 2011 were attributable to research programs as follows:

	Three Months ended June 30,	
($ in millions)	2012	2011
Anthrax therapeutic and vaccines	$ 4.6	$ 5.2
Chemical nerve agent protectants	0.3	-
Internal research and development	-	0.8
Total research and development expenses	$ 4.9	$ 6.0

	Six Months ended June 30,	
($ in millions)	2012	2011
Anthrax therapeutic and vaccines	$ 8.8	$ 10.3
Chemical nerve agent protectants	0.7	0.2
Internal research and development	0.1	1.3
Total research and development expenses	$ 9.6	$ 11.8

For the three and six months ended June 30, 2012, research and development expenses decreased approximately $1.1 and $2.2 million respectively, from the same periods in the prior year, primarily due to a reduction in non-government funded internal research and development and decreased costs related to our Valortim® program as a result of the completion in the first quarter 2012 of work under our 2007 contract with NIAID.

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 $2.8 and $3.4 million for the three months ended June 30, 2012 and 2011, respectively. Legal and professional fees in the second quarter 2011 were approximately $0.7 million higher than in the same period in 2012 primarily due to the increased fees incurred for post trial activities in the litigation with SIGA and higher professional fees in the second quarter 2011. In addition, general and administrative labor costs decreased as a result of planned reductions. The three months ended June 30, 2011 also reflect a bad debt recovery of approximately $0.4 million.

Expenses associated with general and administrative functions were $5.7 million for the six months ended June 30, 2012 and $8.3 million for the six months ended June 30, 2011. Legal and professional fees in the first six months of 2011 were approximately $2.4 million higher than in the same period in 2012 primarily due to the increased fees incurred for the trial and post trial activities in the litigation with SIGA as well as higher professional fees in the first half of 2011. In addition, general and administrative labor costs decreased as a result of planned reductions. The six months ended June 30, 2011 also includes a bad debt recovery of approximately $0.4 million.

Depreciation and Amortization

Depreciation and amortization expenses were approximately $0.1 million for the three months ended June 30, 2012 and 2011, respectively. Depreciation and amortization expenses were approximately $0.2 million for the six months ended June 30, 2012 and 2011, respectively.

Other Income (Expense)

Other income (expense) primarily consists of interest income on our cash and cash equivalents, interest expense on our debt and other financial obligations, changes in fair value of our derivative financial instruments, foreign currency transaction gains or losses, and the gain on the disposal of property and equipment.

We incurred approximately $0.1 million and $15 thousand in interest expense during the three months ended June 30, 2012 and 2011, respectively. We incurred $0.1 million and $31 thousand in interest expense during the six months ended June 30, 2012 and 2011, respectively. Interest expense in 2012 is the result of the term loan and revolving line of credit we entered into on March 30, 2012. We anticipate that we will incur higher interest expense as a result of the term loan and use of the revolving line of credit in future periods.

The other income related to the change in the fair value of our derivative instruments was approximately $0.8 million and $0.7 million for the three months ended June 30, 2012 and 2011, respectively. The warrants are considered to be derivative liabilities due to the presence of net settlement features, including cash settlement in certain circumstances, and are recorded at fair value at each balance sheet date. The fair value of these derivative instruments is estimated using the Black-Scholes option pricing model. The decrease in fair value recognized for the three months ended June 30, 2012 was primarily the result of the decrease in our stock price from $1.77 per share on March 30, 2012 to $1.39 per share on June 30, 2012. The $0.7 million change in the fair value of derivative instruments during the three month period ended June 30, 2011 is due primarily to the change in the closing price of our stock, which was $3.19 per share as of March 31, 2011 to $2.94 per share as of June 30, 2011.

The other expense related to the change in the fair value of our derivative instruments was approximately $0.2 million for the six months ended June 30, 2012. The other income related to the change in fair value of our derivative instruments was approximately $3.2 million for the six months ended June 30, 2011. The fair value of these derivative instruments is estimated using the Black-Scholes option pricing model. The increase in fair value recognized for the six months ended June 30, 2012 was primarily the result of the increase in our stock price from $1.27 per share on December 31, 2011 to $1.39 per share on June 30, 2012. The $3.2 million change in the fair value of derivative instruments during the six month period ended June 30, 2011 is due primarily to the change in the closing price of our stock, which was $4.23 per share as of December 31, 2010 and $2.94 per share as of June 30, 2011. For more information, please refer to Note 3 - Fair Value Measurements in the notes to the unaudited condensed consolidated financial statements.

Income Taxes

Income tax expense was approximately $16 thousand and $0.2 million for the three and six months ended June 30, 2012, respectively. No income tax expense was recorded in 2011. Income tax expense in 2012 resulted from the difference between the treatment of goodwill for income tax purposes and for U.S. Generally Accepted Accounting Principles. The Company recorded a deferred tax liability, which cannot offset deferred tax assets, and a corresponding income tax expense. This deferred tax liability is included in our condensed consolidated balance sheet in other noncurrent liabilities.

Liquidity and Capital Resources

Overview

Our primary cash requirements for 2012 are to fund our operations (including our research and development programs) and support our general and administrative activities. Our future capital requirements will depend on many factors, including, but not limited to, timing, amount and profitability of sales of ST-246®, if any (and our ability to collect our portion of net profits related to ST-246®); the progress of our research and development programs; the progress of pre-clinical and clinical testing; the time and cost involved in obtaining regulatory approval; the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; changes in our existing research relationships; competing technological and marketing developments; our ability to establish collaborative arrangements and to enter into licensing agreements and contractual arrangements with others; and any future change in our business strategy. These cash requirements could change materially as a result of shifts in our business and strategy.

During 2011 and the first quarter of 2012, we implemented certain cost reduction activities that we believe have reduced our net operating cash needs for 2012 and 2013 significantly as compared to 2010 and 2011. In addition, during the first quarter of 2012, we closed on a term loan for $2.5 million and have access to additional debt capital pursuant to a revolving line of credit for up to an additional $5 million dollars based on a percentage of our accounts receivable. No borrowings under the revolving line of credit were outstanding as of June 30, 2012. As of June 30, 2012, approximately $0.1 million was available under the Loan Agreement to borrow against the revolving line of credit as we worked to finalize customary post-closing arrangements to implement GE Capital's security interest in our receivables. These security interest arrangements were implemented in July 2012. We currently anticipate that our current cash on hand, amounts available under the line of credit, and collection of accounts receivables at June 30, 2012, as well as cash to be collected from contract revenue under contracts currently in place, will be sufficient to meet the Company's ongoing expenses and capital requirements through at least June 30, 2013.

Since our inception, we have not historically generated positive cash flows from operations. To bridge the gap between payments made to us under our 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 securities and convertible notes, proceeds from loans and other borrowings. For the foreseeable future, we will continue to need these types of financing vehicles and potentially others to help fund our future operating and capital requirements.

While in March 2012, the Company was successful in securing credit financing, the renewed turmoil affecting the global financial system threatens to once again tighten the credit markets. As a result, there can be no assurance that future funding will be available to us on reasonably acceptable terms, or at all. In addition, due to the U.S. government's continuing substantial efforts to stabilize the economy, the U.S. government may be forced or choose to reduce or delay spending in the biodefense field, which could decrease the likelihood of future government contract awards, the likelihood that the government will exercise its right to extend any of its existing contracts with us and/or the likelihood that the government would procure products from us.

Our condensed consolidated financial statements have been prepared on a basis which assumes that we will continue as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business and do not include any adjustments that might result if the carrying amount of recorded assets and liabilities are not realized.

Sources and Uses of Cash

Cash and cash equivalents were $11.8 million and $11.2 million at June 30, 2012 and December 31, 2011, respectively. The $0.6 million increase at June 30, 2012 was primarily attributable to the $2.5 million term loan, which we closed in the first quarter 2012, partially offset by $1.9 million of cash used in operations, while for the corresponding 2011 period, cash and cash equivalents included $5.8 million in proceeds from the June 2011 issuance of stock and warrants, partially offset by $3.4 million of cash used in operations.

Operating Activities

Net cash used in operating activities was $1.9 million and $3.4 million for the six months ended June 30, 2012 and 2011, respectively.

Net cash used in operations during the six months ended June 30, 2012 reflects our net loss of $3.4 million, adjusted for non-cash share-based compensation expense of $1.1 million, the increase in the fair value of derivative instruments of $0.2 million and other noncash expenses of $0.3 million. The increase in unbilled accounts receivable of approximately $1.8 million was partially offset by a decrease in accounts receivable of approximately $1.0 million. The increase in the fair value of the derivative instruments primarily relates to the change in our stock price from $1.27 per share at December 30, 2011 to $1.39 per share at June 30, 2012.

Net cash used in operations during the six months ended June 30, 2011 reflects our net loss of $4.5 million, adjusted for the change in market value of derivative instruments of $3.2 million and recovery of bad debt expenses of $0.4 million. These were offset by non-cash stock option expense of $1.3 million, decrease in accounts receivable of $0.8 million, decrease in unbilled receivables of $1.1 million and a decrease in prepaid expenses and other current assets of $1.6 million and minor decreases in current liabilities. The change in market value of the derivative instruments primarily relates to the change in PharmAthene's stock price from $4.23 per share at December 30, 2010 to $2.94 per share at June 30, 2011.

Investing Activities

There were no significant investing activities during the six months ended June 30, 2012 and June 30, 2011.

Financing Activities

Net cash provided by financing activities was $2.4 million for the six months ended June 30, 2012 as compared to $5.8 million for the six months ended June 30, 2011.

The majority of our cash provided by financing for the six months ended June 30, 2012, was a result of us entering into a senior fully-secured debt facility with GE Capital as described in Note 6 to the unaudited condensed consolidated financial statements. On March 30, 2012, the term loan was funded for an aggregate amount of $2.5 million. The initial draw on the revolving line of credit was, for approximately $0.9 million, on March 30, 2012. The revolving line of credit was repaid during the second quarter, therefore, none of the $5 million revolving line of credit was being used as of June 30, 2012.

In June 2011, PharmAthene entered into an agreement with certain accredited investors who purchased an aggregate of 1,857,143 shares of common stock for a purchase price of $3.50 per share and warrants to purchase up to an additional 371,423 shares of common stock. The warrants were exercisable immediately at an exercise price of $3.50 per share until the fifth anniversary of the date of issuance, which is June 15, 2016. The Company received gross proceeds of approximately $6.5 million and net proceeds of approximately $5.8 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

The following are contractual commitments at June 30, 2012 primarily associated with leases and research and development arrangements:

Contractual Obligations[(1)]	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Operating facility leases	4,000,200	785,850	1,595,400	1,618,950	-
Research and development agreements	17,465,985	17,309,885	156,100	-	-
Term loan	2,500,000	454,548	1,818,192	227,260	-
Total contractual obligations	$ 23,966,185	18,550,283	3,569,692	1,846,210	-

(1) This table does not include any royalty payments relating to future sales of products subject to license agreements the Company has entered into in relation to its in-licensed technology, as the timing and likelihood of such payments are not known.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We have limited exposure to interest rate and foreign currency exchange rate risk.

Our exposure to interest rate risk is currently confined to our cash and cash equivalents. 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 material impact on the realized value of our holdings. Our term loan with GE Capital is at a fixed 10.14% rate. Because of the fixed rate, we do not think that a change in market interest rates would have a material impact on our amounts payable under the loan. Due to the short term nature of the revolving line of credit, we do not anticipate an interest rate risk even though the interest rate is variable.

The Company's current operations in foreign countries are minimal. We have closed our active operations in Canada and maintain nominal operations in the United Kingdom. A 10% change in exchange rates (against the U.S. dollar) would have no material impact on earnings or cash flow.

We currently do not hedge interest rate exposure or foreign currency exchange exposure. We have also not used derivative financial instruments for speculation or trading purposes.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2012. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Our management, including our principal executive and principal financial officers, has evaluated any changes in our internal control over financial reporting that occurred during the quarterly period ended June 30, 2012, and has concluded that there was no change that occurred during the quarterly period ended June 30, 2012 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

In December 2006, we filed a complaint against SIGA in the Delaware Court of Chancery. The complaint alleges, among other things, that we have the right to license exclusively development and marketing rights for SIGA's drug candidate, ST-246®, pursuant to a merger agreement between the parties that was terminated in October 2006. The complaint also alleges that SIGA failed to negotiate in good faith the terms of such a license pursuant to the terminated merger agreement.

In September 2011, the Court issued an opinion in the case finding that SIGA had breached certain contractual obligations to us and upholding our claims of promissory estoppel. The Court awarded us the right to receive 50% of all net profits related to the sale of ST-246® and related products for 10 years following initial commercial sale of the drug once SIGA earns $40 million in net profits from the sale of ST-246® and related products. The Court also awarded us one-third of our reasonable attorney's fees and expert witness fees, which amounts to approximately $2.4 million. In May 2012, the Court issued its final judgment. Both parties are appealing aspects of the decision to the Delaware Supreme Court.

We can provide no assurances that SIGA will not prevail on its appeal, that we will be successful in our appeal of certain aspects of the decision, and that the Delaware Supreme Court will not overturn the trial court's decision awarding us a 10 year 50% net profit interest in sales of ST-246® and related products (once SIGA earns $40 million in net profits). We have not recorded any amount due from SIGA in relation to this case.

Item 1A. Risk Factors

Investing in our securities involves risks. In addition to the other information in this quarterly report on Form 10-Q, stockholders and potential investors should carefully consider the risks and uncertainties discussed in the section "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2011 as supplemented by the risks and uncertainties discussed below. If any of the risks and uncertainties set forth below or in our 2011 annual report on Form 10-K actually materialize, our business, financial condition and/or results of operations could be materially adversely affected, the trading price of our common stock could decline and a stockholder could lose all or part of his or her investment. The risks and uncertainties set forth below and described in our 2011 annual report on Form 10-K are not the only ones that may materialize. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations.

Risks Related to Our Financial Condition

There are risks presented by our obligations under our fully-secured loan agreement with GE Capital

In the first quarter 2012, we closed on a senior fully-secured debt facility with GE Capital providing for a $2.5 million term loan and a revolving line of credit of up to $5 million based on a percentage of our outstanding qualified accounts receivable. The Company's obligations under the loan and security agreement with GE Capital ("Loan Agreement") are secured by a security interest in substantially all of the Company's assets. While the security interest does not, except in limited circumstances, cover the Company's intellectual property, it does cover any proceeds to the Company from the use of intellectual property. The Loan Agreement contains customary representations, warranties and covenants, including limitations on acquisitions, dispositions, incurrence of indebtedness and the granting of security interests. Upon the occurrence and during the continuance of any event of default, GE Capital may, and at the written request of the requisite lenders shall, terminate the commitments under the facilities and declare any or all of the obligations to be immediately due and payable, without demand or notice to the Company. However, any event of default relating to timely payment of debts, insolvency, liquidation, bankruptcy or similar events will result in automatic acceleration. Among the remedies available to GE Capital in case of an event of default are the taking possession and disposition of any collateral under the Loan Agreement.

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

Not applicable

Item 3. Default upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

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

SIGNATURES

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

PHARMATHENE, INC.

Dated: August 7, 2012

By: /s/ Eric I. Richman
Eric I. Richman
President and Chief Executive Officer

Dated: August 7, 2012

By: /s/ Linda Chang
Linda Chang
Senior Vice-President and Chief Financial Officer

Exhibit 31.1

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

I, Eric I. Richman, certify that:

1. I have reviewed this report on Form 10-Q of PharmAthene, Inc. for the quarter ended June 30, 2012;

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 statement 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: August 7, 2012

/s/ Eric I. Richman
Name: **Eric I. Richman**
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, Linda Chang, certify that:

1. I have reviewed this report on Form 10-Q of PharmAthene, Inc. for the quarter ended June 30, 2012;

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 statement 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: August 7, 2012

/s/ Linda Chang
Name: **Linda Chang**
Title: **Senior Vice President and Chief Financial Officer**

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 of PharmAthene, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), I, Eric I. Richman, 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, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric I. Richman

Eric I. Richman
President and Chief Executive Officer
August 7, 2012

A signed original of this written statement required by Section 906 has been provided to PharmAthene, Inc. and will be retained by PharmAthene, Inc. and furnished to the Securities and Exchange Commission upon request.

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 of PharmAthene, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2012, as filed with the Securities and Exchange Commission (the "Report"), I, Linda Chang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Linda Chang
Linda Chang
Senior Vice President and Chief Financial Officer
August 7, 2012

A signed original of this written statement required by Section 906 has been provided to PharmAthene, Inc. and will be retained by PharmAthene, Inc. and furnished to the Securities and Exchange Commission upon request.