



## POTENTIAL TAX CONSEQUENCES OF THE DISTRIBUTION

As previously announced, PharmAthene, Inc. ("PIP") has declared a special one-time cash dividend of \$2.91 per share of common stock of PIP, payable on February 3, 2017 to holders of record as of January 24, 2017 (the "Distribution"). The following discussion and examples of the potential tax consequences of the Distribution are not tax advice, and are directed only at holders of common stock of PIP that held such common stock prior to or as of the record date. Holders of the common stock of PIP who are not U.S. persons may have different tax consequences than those described below and are urged to consult their own tax advisors and/or attorneys regarding the tax treatment to them under U.S. and non-U.S. laws. Further, this discussion is not a complete description of all of the consequences of the Distribution relevant to a particular holder and may not address U.S. federal income tax considerations applicable to holders of PIP common stock subject to special treatment under U.S. federal income tax law.

**TAX MATTERS ARE COMPLICATED, AND THE TAX CONSEQUENCES OF THE TRANSACTION DEPEND ON EACH SHAREHOLDER'S PARTICULAR TAX SITUATION. HOLDERS OF PIP COMMON STOCK ARE STRONGLY URGED TO CONSULT WITH THEIR OWN TAX ADVISORS AND/OR ATTORNEYS REGARDING THE POTENTIAL TAX CONSEQUENCES OF THE DISTRIBUTION TO THEM, INCLUDING THE EFFECTS OF U.S. FEDERAL, STATE AND LOCAL, FOREIGN AND OTHER TAX LAWS.**

In general, a corporate distribution is treated as a "dividend" for U.S. federal income tax purposes, but only to the extent of the distributing corporation's available current and accumulated earnings and profits ("E&P"). If the distribution exceeds the distributing corporation's E&P, such excess is treated first as a return of the recipient shareholder's basis and then as capital gain to the shareholder for the amount in excess of such basis. The tax rate associated with dividend and capital gain income is determined by each shareholder's separate tax situation and should be determined by each shareholder in consultation with their tax advisor and/or attorney.

PIP will make the Distribution on February, 3, 2017. PIP has not completed its calculation of its accumulated and current E&P, and such calculation cannot be completed until after the close of PIP's current tax year. Following completion of its E&P calculation, PIP will disclose to its shareholders the portion of the Distribution that was made out of PIP's E&P and the portion that exceeded PIP's E&P. Solely for illustration purposes and based solely on publicly available information, PIP's shareholders might estimate (at a high level) PIP's E&P as follows. Each PIP shareholder should consult with its own tax advisor and/or attorney to determine its tax consequences associated with the Distribution.

- Through 2015, PIP generated net operating losses of \$176 million.
- In 2016, PIP received \$217 million of litigation proceeds from SIGA.
- For purposes of this illustration, assume PIP pays \$16 million cash taxes for 2016.
- Solely for purposes of this illustration, assume there will be \$0 additional positive or negative E&P in 2017.
- Based solely on these data points, PIP would have total available E&P of \$25 million.
- Based on the \$25 million of available E&P and a total Distribution of \$200 million, 12.5% of each shareholder's Distribution would be out of PIP E&P. Each shareholder should consult with its tax advisor and/or attorney to determine whether the balance of its share of the Distribution is a return of capital and/or in excess of its tax basis in its PIP stock.

THE DISCUSSION AND EXAMPLES OF THE U.S. FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE ARE NOT INTENDED TO BE A COMPLETE ANALYSIS OR DESCRIPTION OF ALL POTENTIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION, MOREOVER, THE DISCUSSION AND EXAMPLES SET FORTH ABOVE DO NOT ADDRESS TAX CONSEQUENCES THAT MAY VARY WITH, OR ARE DEPENDENT ON, INDIVIDUAL CIRCUMSTANCES. IN ADDITION, THE DISCUSSION AND EXAMPLES SET FORTH ABOVE DO NOT ADDRESS ANY NON-INCOME TAX OR ANY FOREIGN, STATE OR LOCAL TAX CONSEQUENCES OF THE DISTRIBUTION AND DO NOT ADDRESS THE TAX CONSEQUENCES OF ANY OTHER TRANSACTION.