SOLIGENIX, INC.
Form 10-Q
August 12, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2011

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 000-16929

SOLIGENIX, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	41-1505029
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
29 EMMONS DRIVE, SUITE C-10 PRINCETON, NJ	08540
(Address of principal executive offices)	(Zip Code)

(609) 538-8200
(Registrant's telephone number, including area code)

Indicate by check whether the registrant (1) 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 x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

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 definition of “accelerated filer” and “large accelerated filer” in Rule 112b-2 of the Exchange Act (Check one).

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

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

As of August 9, 2011, 220,791,077 shares of the registrant's common stock (par value, $.001 per share) were outstanding.

SOLIGENIX, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Soligenix, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$4,156,749	$7,451,714
Grants receivable	336,560	120,787
Other receivable	4,322	251,864
Prepaid expenses	91,635	187,494
Total current assets	4,589,266	8,011,859
Office furniture and equipment, net	17,100	20,699
Intangible assets, net	1,246,543	1,235,989
Total assets	$5,852,909	$9,268,547
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$1,373,974	$1,674,175
Accrued compensation	49,302	236,581
Total current liabilities	1,423,276	1,910,756
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; 5,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $.001 par value; 400,000,000 shares authorized; 218,240,167 shares and 216,192,360 shares issued and outstanding in 2011 and 2010, respectively	218,240	216,192
Additional paid-in capital	123,601,900	122,880,378
Accumulated deficit	(119,390,507)	(115,738,779)
Total shareholders' equity	4,429,633	7,357,791
Total liabilities and shareholders' equity	$5,852,909	$9,268,547

The accompanying notes are an integral part of these consolidated financial statements.

Soligenix, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues, principally from grants	$405,820	$444,642	$1,213,825	$780,438
Cost of revenues	(349,511)	(349,093)	(903,548)	(622,866)
Gross profit	56,309	95,549	310,277	157,572
Operating expenses:				
Research and development	1,307,051	1,070,711	2,563,186	2,669,002
General and administrative	450,179	544,506	1,014,091	1,082,603
Stock-based compensation – research and development	206,671	39,948	323,340	80,152
Stock-based compensation – general and administrative	25,198	20,654	65,296	42,713
Total operating expenses	1,989,099	1,675,819	3,965,913	3,874,470
Loss from operations	(1,932,790)	(1,580,270)	(3,655,636)	(3,716,898)
Other income:				
Interest income, net	1,473	2,977	3,908	3,345
Net loss	$(1,931,317)	$(1,577,293)	$(3,651,728)	$(3,713,553)
Basic and diluted net loss per share	$(0.01)	$(0.01)	$(0.02)	$(0.02)
Basic and diluted weighted average common shares outstanding	217,998,049	190,751,511	217,424,979	188,644,289

The accompanying notes are an integral part of these consolidated financial statements.

Soligenix, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2011
(Unaudited)

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Par Value	Capital	Deficit	Total
Balance, December 31, 2010	216,192,360	$216,192	$122,880,378	$(115,738,779)	$7,357,791
Issuance of common stock pursuant to equity line agreement – Fusion	1,422,807	1,423	253,577	-	255,000
Issuance of common stock for stock option and warrant exercises	625,000	625	68,125	-	68,750
Fair value of common stock warrants to vendors	-	-	11,184	-	11,184
Stock-based compensation expense	-	-	388,636	-	388,636
Net loss	-	-	-	(3,651,728)	(3,651,728)
Balance, June 30, 2011	218,240,167	$218,240	$123,601,900	$(119,390,507)	$4,429,633

The accompanying notes are an integral part of these consolidated financial statements.

Soligenix, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30,
(Unaudited)

	2011	2010
Operating activities:		
Net loss	$(3,651,728)	$(3,713,553)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization and depreciation	105,443	85,779
Common stock or warrants issued in exchange for services	11,184	122,197
Stock-based compensation	388,636	122,865
Capitalized patent write-off	-	378,501
Change in operating assets and liabilities:		
Grants receivable	(215,773)	(87,665)
Other receivable	247,542	(8,000)
Inventory	-	7,733
Prepaid expenses	95,859	(18,228)
Accounts payable	(300,201)	923,946
Accrued compensation	(187,279)	(319,930)
Total adjustments	145,411	1,207,198
Net cash used in operating activities	(3,506,317)	(2,506,355)
Investing activities:		
Acquisition of intangible assets	(112,398)	(168,102)
Purchase of office equipment	-	(947)
Net cash used in investing activities	(112,398)	(169,049)
Financing activities:		
Net proceeds from sale of common stock	-	5,679,856
Proceeds from sale of common stock pursuant to equity line	255,000	70,000
Proceeds from exercise of options and warrants	68,750	45,540
Net cash provided by financing activities	323,750	5,795,396
Net increase/(decrease) in cash and cash equivalents	(3,294,965)	3,119,992
Cash and cash equivalents at beginning of period	7,451,714	7,692,011
Cash and cash equivalents at end of period	$4,156,749	$10,812,003

The accompanying notes are an integral part of these consolidated financial statements.

Soligenix, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Nature of Business

Basis of Presentation

Soligenix, Inc. ("Soligenix," the "Company," "we" or "us") is a late-stage biopharmaceutical company that was incorporated in 1987 and is focused on developing products to treat the life-threatening side effects of cancer treatments and serious gastrointestinal diseases where there remains an unmet medical need, as well as developing several biodefense vaccines and therapeutics. The Company maintains two active business segments: BioTherapeutics and BioDefense. Soligenix's BioTherapeutics business segment intends to develop orBec® (oral beclomethasone dipropionate, or oral BDP) and other biotherapeutic products, while the Company's collaboration partner, Sigma-Tau Pharmaceuticals, Inc. ("Sigma-Tau") will commercialize orBec® in North America and Europe, once approved. Soligenix's BioDefense business segment intends to use RiVaxTM, its ricin toxin vaccine, to support development efforts with its heat stabilization technology, and SGX202, its radiation injury program, to convert from early stage development to advanced development with the assistance of ongoing government grant funding.

The Company currently generates revenues primarily from the National Institutes of Health (the "NIH") under three active grants and from its license with Sigma-Tau, once milestones are achieved.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, development of new technological innovations, dependence on key personnel, protections of proprietary technology, compliance with FDA regulations, litigation, and product liability.

The consolidated financial statements are presented on the basis of accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted from this report, as is permitted by such rules and regulations; however, the Company believes that the disclosures are adequate to make the information presented not misleading. The unaudited consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Results for interim periods are not necessarily indicative of results for the full year. The Company has experienced significant quarterly fluctuations in operating results and it expects those fluctuations will continue.

Liquidity

As of June 30, 2011, the Company had cash and cash equivalents of $4,156,749 as compared to $7,451,714 as of December 31, 2010, representing a decrease of $3,294,965. As of June 30, 2011, the Company had working capital of $3,165,990 as compared to working capital of $6,101,103 as of December 31, 2010, representing a decrease of $2,935,113 or 48%. The decrease in cash and working capital was the result of cash used in operating activities over the six month period, offset by $255,000 in proceeds from issuances of common stock under the common stock purchase agreement with Fusion Capital Fund II, LLC ("Fusion Capital"). For the six months ended June 30, 2011, the Company's cash used in operating activities was $3,506,317 as compared to $2,506,355 for the same period in 2010, representing an increase of $999,962. Based on our current rate of cash outflows, cash on hand, the timely collection of milestone payments under collaboration agreements, recently announced European territory license with

Sigma-Tau, which provided a $5,000,000 up front payment, proceeds from our grant-funded programs, and potential proceeds from the Fusion Capital transaction, we believe that our current cash will be sufficient to meet the anticipated cash needs for working capital and capital expenditures into the first quarter of 2013.

Management's business strategy can be outlined as follows:

- complete the confirmatory Phase 3 clinical trial for orBec® in the treatment of acute gastrointestinal Graft-versus-Host disease ("GI GVHD");
- Identify a development and marketing partner for orBec® for territories outside of North America and Europe;
- complete and report data from the Phase 1/2 clinical trial for SGX201 (oral BDP) in the prevention of acute radiation enteritis;
- evaluate and/or initiate additional trials to explore the effectiveness of orBec®/oral BDP in other therapeutic indications involving inflammatory conditions of the gastrointestinal ("GI") tract such as prevention of acute GVHD, treatment of chronic GI GVHD, radiation injury, and Crohn's disease;
- continue to secure additional government funding for each of our BioTherapeutics and BioDefense programs through grants, contracts and/or procurements;
- use RiVaxTM to support development efforts with our heat stabilization technology to develop new heat stable vaccines in biodefense and infectious diseases with the potential to collaborate and/or partner with other companies in these areas;
- acquire or in-license new clinical-stage compounds for development; and
- explore other business development and acquisition strategies.

The Company's plans with respect to its liquidity management include the following:

- The Company has approximately $8.4 million in active grant funding still available to support its research programs through 2011 and beyond. The Company has also submitted additional grant applications for further support of its programs with various funding agencies, and has received encouraging feedback to date on the likelihood of additional funding.
- The Company has approximately $7.4 million in available capacity under the Company's Fusion Capital equity facility through October 2011. Although the Company has historically drawn down modest amounts under this agreement, the Company could draw more within certain contractual parameters;
- The Company will seek non-dilutive funding through completion of partnerships for its orBec®/oral BDP programs in territories outside North America and Europe;
- The Company has continued to use equity instruments to provide a portion of the compensation due to vendors and collaboration partners and expects to continue to do so for the foreseeable future.
- The Company will pursue Net Operating Losses ("NOL") sales in the State of New Jersey, pursuant to its Technology Business Tax Certificate Transfer Program. Based on the receipt of $245,810 in proceeds pursuant to NOL sales in 2010 and assuming its application is accepted, the Company expects to participate in the expanded program during 2011 and beyond; and
- The Company may seek additional capital in the private and/or public equity markets to continue its operations, respond to competitive pressures, develop new products and services, and to support new strategic partnerships. The Company is currently evaluating additional equity financing opportunities and may execute them when appropriate. However, there can be no assurances that the Company can consummate such a transaction, or consummate a transaction at favorable pricing.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include Soligenix, Inc., and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated as a result of consolidation.

Operating Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing the performance of the segment. The Company divides its operations into two operating segments: BioTherapeutics and BioDefense.

Grants Receivable

Grants receivable consist of unbilled amounts due from various grants from the NIH for costs incurred prior to the period end under reimbursement contracts. The amounts were billed to the NIH in the month subsequent to period end and collected shortly thereafter. The Company considers the grants receivable to be fully collectible. Accordingly, no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

Intangible Assets

One of the most significant estimates or judgments that the Company makes is whether to capitalize or expense patent and license costs. The Company makes this judgment based on whether the technology has alternative future uses, as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (“ASC”) 730, Research and Development. Based on this consideration, the Company capitalizes payments made to legal firms that are engaged in filing and protecting rights to intellectual property and rights for our current products in both the domestic and international markets. The Company believes that patent rights are one of its most valuable assets. Patents and patent applications are a key component of intellectual property, especially in the early stage of product development, as their purchase and maintenance gives the Company access to key product development rights from Soligenix’s academic and industrial partners. These rights can also be sold or sub-licensed as part of its strategy to partner its products at each stage of development as the intangible assets have alternative future use. The legal costs incurred for these patents consist of work designed to protect, preserve, maintain and perhaps extend the lives of the patents. The Company capitalizes such costs and amortizes intangibles over their expected useful life – generally a period of 11 to 16 years.

The Company capitalized $112,398 and $168,102 in patent related costs during the six months ended June 30, 2011 and 2010, respectively.

Impairment of Long-Lived Assets

Office furniture and equipment and intangible assets are evaluated and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company recognizes impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and the carrying value of the related asset or group of assets. Such analyses necessarily involve significant judgment.

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The Company did not record any impairment of long-lived assets for the six months ended June 30, 2011 or 2010.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method and includes the cost of materials and overhead. The Company records an allowance as needed for excess inventory. During the fourth quarter of 2010, the Company disposed of certain inventory valued at $30,211 due to product expiration dates.

Revenue Recognition

Substantially all of the Company's revenues are generated from NIH grants. The Company also generates revenues from the achievement of licensing milestones (in prior periods). The revenue from NIH grants is based upon subcontractor costs and internal costs incurred that are specifically covered by the grants, plus a facilities and administrative rate that provides funding for overhead expenses. These revenues are recognized when expenses have been incurred by subcontractors or when the Company incurs internal expenses that are related to the grant. Licensing milestone revenues are recorded when earned.

Research and Development Costs

Research and development costs are charged to expense when incurred. Research and development includes costs such as clinical trial expenses, contracted research and license agreement fees with no alternative future use, supplies and materials, salaries and employee benefits, equipment depreciation and allocation of various corporate costs. Purchased in-process research and development expense represents the value assigned or paid for acquired research and development for which there is no alternative future use as of the date of acquisition.

Stock-Based Compensation

From time to time, the Company issues restricted shares of common stock to vendors and consultants as compensation for services performed. Stock-based compensation expense recognized during the period is based on the fair value of the portion of share-based payment awards that is ultimately expected to vest during the period.

Stock options are issued with an exercise price equal to the market price on the date of issuance. Stock options issued to directors upon re-election vest quarterly for a period of one year (new director issuances are fully vested upon issuance). Stock options issued to employees vest 25% upfront, then 25% each subsequent year for a period of three years. Stock options vest over each three month period from the date of issuance to the end of the three year period. These options have a ten year life for as long as the individuals remain employees or directors. In general, when an employee or director terminates their position the options will expire within three months, unless otherwise extended by the Board.

Stock compensation expense for options, warrants and shares of common stock granted to non-employees has been determined in accordance with FASB ASC 718, Stock Compensation, and FASB ASC 505-50, Equity-Based Payments to Non-Employees, and represents the fair value of the consideration received, or the fair value of the equity instruments issued, whichever may be more reliably measured. For options that vest over future periods, the fair value of options granted to non-employee directors is amortized as the options vest. The option's price is re-measured using the Black-Scholes model at the end of each three month reporting period.

The fair value of options in accordance with FASB ASC 718, Stock Compensation, was estimated using the Black-Scholes option-pricing model and the following weighted-average assumptions:

- a dividend yield of 0%;
- an expected life of 4 years;
- volatilities of 123% and 129% for 2011 and 2010, respectively;
- forfeitures at a rate of 12%; and
- risk-free interest rates of 1.21% and 1.91% in 2011 and 2010, respectively.

The Company estimates these values based on the assumptions that have been historically available. The fair value of each option grant made during 2011 and 2010 was estimated on the date of each grant using the Black-Scholes option pricing model and is then amortized ratably over the option's vesting periods, which approximates the service period.

There were 625,000 options exercised and 1,431,250 options expired or were forfeited during the 6 months ended June 30, 2011. As of June 30, 2011, the Company has 27,521,677 outstanding and exercisable options.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence is considered, including the Company's current and past performance, the market environment in which the Company operates, the utilization of past tax credits, and the length of carryback and carryforward periods. Deferred tax assets and liabilities are measured utilizing tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. No current or deferred income taxes have been provided through June 30, 2011 due to the net operating losses incurred by the Company since its inception. The Company recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of income tax expense. There were no tax related interest and penalties recorded for 2010 and 2009. Additionally, the Company has not recorded an asset for unrecognized tax benefits or a liability for uncertain tax positions at June 30, 2011 or 2010. The income tax returns for 2007, 2008 and 2009 are subject to examination by the IRS and other various taxing authorities, generally for three years after they were filed.

Earnings per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity. Since there is a significant number of options and warrants outstanding, fluctuations in the actual market price can have a variety of results for each period presented. No options and warrants were included in the 2011 and 2010 computations of diluted earnings per share because their effect would be anti-dilutive as a result of losses in each of those years.

	Three Months Ended June 30,					
	2011			2010		
	Net Loss	Shares	EPS	Net Loss	Shares	EPS
Basic & Diluted EPS	$(1,931,317)	217,998,049	$(0.01)	$(1,577,293)	190,751,511	$(0.01)

	Six Months Ended June 30,					
	2011			2010		
	Net Loss	Shares	EPS	Net Loss	Shares	EPS
Basic & Diluted EPS	$(3,651,728)	217,424,979	$(0.02)	$(3,713,553)	188,644,289	$(0.02)

Shares issuable upon the exercise of options and warrants outstanding at June 30, 2011 and 2010 were 27,521,677 and 18,685,414 shares issuable upon the exercise of options, and 54,156,373 and 60,933,156 shares issuable upon the exercise of warrants, respectively. The weighted average exercise price of the Company's stock options and warrants outstanding at June 30, 2011 were $0.24 and $0.22 per share, respectively. The weighted average exercise price of the Company's stock options and warrants outstanding at June 30, 2010 were $0.25 and $0.24 per share, respectively.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements

In April 2010, the FASB issued Accounting Standards Update ("ASU") 2010-17, Revenue Recognition—Milestone Method (Topic 605) - Milestone Method of Revenue Recognition - a consensus of the FASB Emerging Issues Task Force, which provides guidance to vendors on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all of the following criteria to be considered substantive. Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. To be considered substantive, the following criteria must be met. The consideration earned by achieving the milestone should:

- Be commensurate with either of the following:
  - The vendor's performance to achieve the milestone
  - The enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor's performance to achieve the milestone
- Relate solely to past performance
- Be reasonable relative to all deliverables and payment terms in the arrangement

A milestone should be considered substantive in its entirety. An arrangement may include more than one milestone, and each milestone should be evaluated separately to determine whether the milestone is substantive. A vendor's decision to use the milestone method of revenue recognition for transactions within the scope of ASU 2010-17 is a policy election, and certain disclosures are required for each arrangement that includes milestone consideration accounted for in accordance with ASU 2010-17. Other proportional revenue recognition methods also may be applied as long as the application of those other methods does not result in the recognition of consideration in its entirety in the period the milestone is achieved.

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The amendments in ASU 2010-17 were effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010 and had no impact to the Company upon adoption.

Note 3. Office Furniture and Equipment

Office furniture and equipment are stated at cost. Depreciation is computed on a straight-line basis over five years. Office equipment and furniture consisted of the following:

	June 30, 2011	December 31, 2010
Office equipment	$37,828	$37,828
Office furniture	2,889	2,889
	40,717	40,717
Less: Accumulated depreciation	(23,617)	(20,018)
Office furniture and equipment, net	$17,100	$20,699

Depreciation expense was $1,809 and $1,546 for the three months ended June 30, 2011 and 2010, respectively, and $3,599 and $3,283 for the six months ended June 30, 2011 and 2010, respectively.

Note 4. Intangible Assets

The following is a summary of intangible assets which consists of licenses and patents:

	Weighted Average Amortization Period (years)	Cost	Accumulated Amortization	Net Book Value
June 30, 2011				
Licenses	9.2	$462,234	$ 210,976	$251,258
Patents	3.9	2,025,182	1,029,897	995,285
Total	4.9	$2,487,416	$ 1,240,873	$1,246,543
December 31, 2010				
Licenses	9.7	$462,234	$ 197,469	$264,765
Patents	4.2	1,912,784	941,559	971,224
Total	5.3	$2,375,018	$ 1,139,028	$1,235,989

Amortization expense was $52,208 and $37,982 for the three months ended June 30, 2011 and 2010, respectively and $101,845 and $82,496 for the six months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2010, the Company incurred $378,501 in a one-time patent write off cost related to its return of the Botulinum toxin vaccine license and abandonment of related patents. This cost is reflected in research and development expense in the consolidated statement of operations.

Based on the balance of licenses and patents at June 30, 2011, the annual amortization expense for each of the succeeding five years is estimated to be as follows:

	Amortization Expense
2011	$ 225,000
2012	$ 225,000
2013	$ 225,000
2014	$ 225,000
2015	$ 225,000

License fees and royalty payments are expensed annually as incurred as the Company does not attribute any future benefits other than within that period.

Note 5. Income Taxes

At June 30, 2011, the Company had NOLs of approximately $78,000,000 for federal tax purposes and approximately $21,000,000 of New Jersey NOLs remaining after the sale of unused NOLs, portions of which are currently expiring each year until 2030. In addition, the Company had $2,948,000 of various tax credits that start expiring in December 2011 and will continue to expire through December 2030. The Company may be able to utilize its NOLs to reduce future federal and state income tax liabilities. However, these NOLs are subject to various limitations under Internal Revenue Code ("IRC") Section 382. IRC Section 382 limits the use of NOLs to the extent there has been an ownership change of more than 50 percentage points over a three year period. In addition, the NOL carryforwards are subject to examination by the taxing authority and could be adjusted or disallowed due to such exams. Although the Company has not undergone an IRC Section 382 analysis, it is likely that the utilization of its NOLs may be substantially limited.

The Company and one or more of its subsidiaries files income tax returns in the U.S. Federal jurisdiction, and various state and local jurisdictions. The Company is no longer subject to Federal income tax assessment for years before 2007 and 2006 for New Jersey income tax assessment. However, since the Company has incurred net operating losses in every tax year since inception, all its income tax returns are subject to examination by the Internal Revenue Service and state authorities for purposes of determining the amount of net operating loss carryforward that can be used to reduce taxable income.

The net changes in the valuation allowance for the three and six months ended June 30, 2011 and for the year ended December 31, 2010 were an increase of approximately $1,500,000 and $1,652,000, respectively, both resulting primarily from net operating losses generated. As a result of the Company's continuing tax losses, it has recorded a full valuation allowance against a net deferred tax asset.

The Company has no tax provision for the three and six month periods ended June 30, 2011 and 2010 due to losses and full valuation allowances against net deferred tax assets.

Note 6. Shareholders' Equity

Preferred Stock

The Company has 5 million shares of preferred stock authorized, none of which are issued or outstanding.

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Common Stock

The following items represent transactions in the Company's common stock for the three months ended June 30, 2011:

- In thirteen separate transactions during the six months ended June 30, 2011, the Company issued an aggregate of 1,422,807 shares of common stock under its existing Fusion Capital equity facility. The Company received an aggregate of $255,000 in proceeds which approximated the shares' fair market value on the date of issuance.

- As a result of stock option exercises, 625,000 shares were issued during the six months ended June 30, 2011. The Company received an aggregate of $68,750 in proceeds from these exercises.

Warrants

During 2011, the Company issued warrants to purchase 95,000 shares of common stock to consultants in exchange for their services. Expense charges of $8,498 and $11,184 were recorded during the three and six months ended June 30, 2011, respectively, as a result of these issuances which represented the estimated fair value of the services provided.

Note 7. Commitments and Contingencies

The Company has commitments of approximately $505,000 at June 30, 2011 in connection with an agreement with Numoda Corporation for electronic data capture in connection with its confirmatory Phase 3 clinical trial of orBec® in the treatment of acute GI GVHD that began in September 2009 and is expected to complete in the second half of 2011.

The Company also has several licensing agreements with consultants and universities, which upon clinical or commercialization success may require the payment of milestones and/or royalties if and when achieved. However, there can be no assurance that clinical or commercialization success will occur.

On April 1, 2009, the Company entered into a sub-lease agreement through March 31, 2012 for office space in Princeton, New Jersey. The Company was required to provide 4 months of rent as a security deposit. The rent for the first 18 months was approximately $7,500 per month, or $17.00 per square foot. This rent increased to approximately $7,650 per month, or $17.50 per square foot, for the remaining 18 months. The Company records rent on a straight line basis.

In February 2007, the Company's Board of Directors authorized the issuance of the following shares to Dr. Schaber, Mr. Myrianthopoulos, Dr. Brey and certain other employees and a consultant, upon the completion of a transaction, or series or a combination of related transactions negotiated by the Company's Board of Directors whereby, directly or indirectly, a majority of the Company's capital stock or a majority of its assets are transferred from the Company and/or its stockholders to a third party: 1,000,000 common shares to Dr. Schaber; 750,000 common shares to Mr. Myrianthopoulos; 200,000 common shares to Dr. Brey; and 450,000 common shares to employees and a consultant shall be issued.

Employees with employment contracts have severance agreements that may provide separation benefits from the Company if they are involuntarily separated from employment.

Note 8. Subsequent Events

On July 28, 2011, the Company announced the expansion and amendment of its North American licensing partnership with Sigma-Tau for the development and commercialization of orBec® into the "European Territory" (as defined in amendment). Pursuant to this amendment, the Company received an up-front payment of $5 million and granted Sigma-Tau an exclusive license to commercialize orBec® in the European Territory. The amendment requires Sigma-Tau to make additional payments to the Company in the aggregate amount of $11 million upon the achievement of milestones. Total milestone payments due from Sigma-Tau under the agreement, including the amendment, could reach up to $20 million The next milestone, a $2 million payment, will be made upon the successful completion of the confirmatory Phase 3 clinical trial of orBec® for the treatment of GI GVHD. The amendment also requires Sigma-Tau to pay the Company a 40% royalty (Soligenix to provide finished drug product) on net sales in the European Territory. Sigma-Tau will also cover all commercialization expenses, including launch activities.

On July 26, 2011, the Company and George B. McDonald, MD ("Dr. McDonald") entered into an amendment (the "License Agreement Amendment") to the Exclusive License Agreement dated November 24, 1998, as amended (the "License Agreement"). Under the License Agreement, Dr. McDonald would have been entitled to receive (i) $1,250,000 upon the closing of the Sigma-Tau Amendment; and (ii) $250,000 upon an approval of orBec® by the European Medicines Agency. Pursuant to the License Agreement Amendment, the Company paid Dr. McDonald (i) $612,500 in cash and issued 1,337,793 common shares of the Company, representing $400,000 (based upon the closing price of the Company's common stock on July 26, 2011) upon the closing of the Sigma-Tau Amendment and (ii) $400,000 in cash to be paid upon an approval of orBec® by the European Medicines Agency.

Note 9. Business Segments

The Company maintains two active business segments: BioTherapeutics and BioDefense. Each segment includes an element of overhead costs specifically associated with its operations, with its corporate shared services group responsible for support functions generic to both operating segments.

	Three Months Ended June 30,	
	2011	2010
Revenues, Principally from Grants		
BioDefense	$335,029	$338,104
BioTherapeutics	70,791	106,538
Total	$405,820	$444,642
Loss from Operations		
BioDefense	$(67,425)	$(133,730)
BioTherapeutics	(1,663,402)	(1,237,500)
Corporate	(201,963)	(209,040)
Total	$(1,932,790)	$(1,580,270)
Amortization and Depreciation Expense		
BioDefense	$10,183	$13,966
BioTherapeutics	43,290	25,097
Corporate	542	465
Total	$54,015	$39,528
Interest Income, Net		

Corporate	$1,473	$2,977
Stock-Based Compensation		
BioDefense	$18,416	$12,941
BioTherapeutics	188,255	27,006
Corporate	25,198	20,655
Total	$231,869	$60,602

	Six Months Ended June 30,	
	2011	2010
Revenues, Principally from Grants		
BioDefense	$871,615	$601,894
BioTherapeutics	342,210	178,544
Total	$1,213,825	$780,438
Income (Loss) from Operations		
BioDefense (1)	$52	$(725,156)
BioTherapeutics	(3,044,729)	(2,379,256)
Corporate	(610,959)	(612,486)
Total	$(3,655,636)	$(3,716,898)
Amortization and Depreciation Expense		
BioDefense	$19,872	$37,075
BioTherapeutics	84,491	47,718
Corporate	1,080	986
Total	$105,443	$85,779
Interest Income, Net		
Corporate	$3,908	$3,345
Stock-Based Compensation		
BioDefense	$36,832	$25,881
BioTherapeutics	286,508	54,269
Corporate	65,296	42,715
Total	$388,636	$122,865

(1) During the six months ended June 30, 2010, the Company incurred $378,501 in a one-time patent write off cost related to its anticipated return of the botulinum toxin vaccine license and abandonment of related patents. This cost is reflected in research and development expense in the consolidated statement of operations.

	As of June 30, 2011	As of December 31, 2010
Identifiable Assets		
BioDefense	$693,399	$480,995
BioTherapeutics	896,468	927,973
Corporate	4,263,042	7,859,579
Total	$5,852,909	$9,268,547

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL AND RESULTS OF OPERATIONS

The following discussion and analysis provides information to explain our results of operations and financial condition. You should also read our unaudited consolidated interim financial statements and their notes included in this Form 10-Q, and our audited consolidated financial statements and their notes including Risk Factors and other information included in our Annual Report on Form 10-K for the year ended December 31, 2010. This report contains forward-looking statements. Forward-looking statements within this Form 10-Q are identified by words such as "believes," "anticipates," "expects," "intends," "may," "will" "plans" and other similar expression, however, these words are exclusive means of identifying such statements. In addition, any statements that refer to expectations projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are subject to significant risks, uncertainties and other factors, which may cause actual results to differ materially from those expressed in, or implied by, these forward-looking statements. Except as expressly required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements to reflect events, circumstances or developments occurring subsequent to the filing of this Form 10-Q with the SEC or for any other reason and you should not place undue reliance on these forward-looking statements. You should carefully review and consider the various disclosures the Company makes in this report and our other reports filed with the SEC that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business.

Overview:

Business Overview and Strategy

Soligenix, Inc. was incorporated in Delaware in 1987. We are a late-stage research and development biopharmaceutical company focused on developing products to treat the life-threatening side effects of cancer treatment and serious gastrointestinal diseases where there remains an unmet medical need, as well as developing several biodefense vaccines and therapeutics. We maintain two active business segments: BioTherapeutics and BioDefense. Our BioTherapeutics business segment intends to develop orBec® (oral beclomethasone dipropionate, or oral BDP) and other biotherapeutic products, while our collaboration partner, Sigma-Tau Pharmaceuticals, Inc. ("Sigma-Tau") will commercialize orBec® in North America and Europe once approved by the U.S. Food and Drug Administration (the "FDA"). Our BioDefense business segment intends to use RiVaxTM, our ricin toxin vaccine, to support development efforts with our heat stabilization technology, and SGX202, our radiation injury program, to convert from early stage development to advanced development with the assistance of ongoing government grant funding.

Our business strategy can be outlined as follows:

- complete the confirmatory Phase 3 clinical trial for orBec® in the treatment of acute gastrointestinal Graft-versus-Host disease ("GI GVHD");
- Identify a development and marketing partner for orBec® for territories outside of North America and Europe;
- complete and report data on the Phase 1/2 clinical trial for SGX201 (oral BDP) in the prevention of acute radiation enteritis;
- evaluate and/or initiate additional trials to explore the effectiveness of orBec®/oral BDP in other therapeutic indications involving inflammatory conditions of the gastrointestinal ("GI") tract such as prevention of acute GVHD, treatment of chronic GI GVHD, radiation injury, and Crohn's disease;
- continue to secure additional government funding for each of our BioTherapeutics and BioDefense programs through grants, contracts and/or procurements;
- use RiVaxTM to support development efforts with our heat stabilization technology to develop new heat stable vaccines in biodefense and infectious diseases with the potential to collaborate and/or partner with other companies in these areas;
- acquire or in-license new clinical-stage compounds for development; and
- explore other business development and acquisition strategies.

Our executive offices are located at 29 Emmons Drive, Suite C-10, Princeton, New Jersey 08550 and our telephone number is (609) 538-8200.

Our Products in Development

The following tables summarize the products that we are currently developing:

BioTherapeutic Products

Soligenix Product	Therapeutic Indication	Stage of Development
orBec®	Treatment of Acute GI GVHD	Pivotal Phase 3 confirmatory trial enrolling; expected to complete in 2H 2011
orBec®	Prevention of Acute GVHD	Phase 2 trial completed
orBec®	Treatment of Chronic GI GVHD	Phase 2 trial potentially to be initiated in 2H 2011
SGX201	Acute Radiation Enteritis	Phase 1/2 trial enrollment complete; Data expected in 4Q 2011
LPM™ Leuprolide	Endometriosis and Prostate Cancer	Pre-clinical

BioDefense Products

Soligenix Product	Indication	Stage of Development
RiVaxTM	Vaccine against Ricin Toxin Poisoning	Phase 1B trial enrollment complete; data expected in 2H 2011
SGX202	Radiation Injury	Pre-clinical

BioTherapeutics Overview

orBec® and oral BDP

orBec® represents a first-of-its-kind oral, locally acting therapy tailored to treat the gastrointestinal manifestation of GI GVHD, the organ system where GVHD is most frequently encountered and highly problematic. orBec® is intended to reduce the need for systemic immunosuppressive drugs to treat acute GI GVHD. The active ingredient in orBec® is beclomethasone dipropionate (“BDP”), a highly potent, topically active corticosteroid that has a local effect on inflamed tissue. BDP has been marketed in the U.S. and worldwide since the early 1970s as the active pharmaceutical ingredient in a nasal spray and in a metered-dose inhaler for the treatment of patients with allergic rhinitis and asthma. orBec® is specifically formulated for oral administration as a single product consisting of two tablets. One tablet is intended to release BDP in the upper sections of the GI tract and the other tablet is intended to release BDP in the lower sections of the GI tract.

Based on data from the prior Phase 3 study of orBec®, the current confirmatory Phase 3 study is a highly powered, double-blind, randomized, placebo-controlled, multi-center trial that is expected to enroll an estimated 166 patients. This trial is supported in part by a $1.2 million FDA Orphan Products grant awarded to Soligenix. The primary endpoint is the treatment failure rate at Study Day 80. This endpoint was successfully measured as a secondary endpoint (p-value 0.005) in the previous Phase 3 study as a key measure of durability following a 50-day course of treatment with orBec® (i.e., 30 days following cessation of treatment).

In addition to issued patents and pending worldwide patent applications held by or exclusively licensed to us, orBec® would benefit from orphan drug designations in the U.S. and in Europe for the treatment of GI GVHD, as well as an orphan drug designation in the U.S for the treatment of chronic GI GVHD. Orphan drug designations provide for 7 and 10 years of market exclusivity upon approval in the U.S and Europe, respectively.

Historical Background

Two prior randomized, double-blind, placebo-controlled Phase 2 and 3 clinical trials support the ability of orBec® to provide clinically meaningful outcomes when compared with the current standard of care, including a lowered exposure to systemic corticosteroids following allogeneic transplantation. Currently, there are no approved products to treat GI GVHD. The first trial was a 60-patient Phase 2 single-center clinical trial conducted at the Fred Hutchinson Cancer Research Center (“FHCRC”) in Seattle, Washington. The second trial was a 129-patient pivotal Phase 3 multi-center clinical trial of orBec® conducted at 16 leading bone marrow/stem cell transplantation centers in the U.S. and France. Although orBec® did not achieve statistical significance in the primary endpoint of its pivotal trial, namely median time-to-treatment failure through Day 50 (p-value 0.1177), orBec® did achieve statistical significance in other key secondary endpoints such as the proportion of patients free of GVHD at Day 50 (p-value 0.05) and Day 80 (p-value 0.005) and the median time-to-treatment failure through Day 80 (p-value 0.0226), as well as a 66% reduction in mortality among patients randomized to orBec® at 200 days post-transplant with only 5 patient (8%) deaths in the orBec® group compared to 16 patient (24%) deaths in the placebo group (p-value 0.0139). Within one year after randomization in the pivotal Phase 3 trial, 18 patients (29%) in the orBec® group and 28 patients (42%) in the placebo group died (46% reduction in mortality, p-value 0.04).

In the Phase 2 study, the primary endpoint was the clinically relevant determination of whether GI GVHD patients at Day 30 (the end of treatment) had a durable GVHD treatment response as measured by whether or not they were able to consume at least 70% of their estimated caloric requirement. The GVHD treatment response at Day 30 was 22 of 31 (71%) vs. 12 of 29 (41%) in the orBec® and placebo groups, respectively (p-value 0.02). Additionally, the GVHD treatment response at Day 40 (10 days post cessation of therapy) was 16 of 31 (52%) vs. 5 of 29 (17%) in the orBec® and placebo groups, respectively (p-value 0.007).

Based on the data from the above referenced Phase 2 and Phase 3 studies, on September 21, 2006, we filed a new drug application (“NDA”) for our lead product orBec® with the FDA for the treatment of acute GI GVHD. On October 18, 2007, we received a not approvable letter from the FDA in response to our NDA for orBec® for the treatment of acute GI GVHD. In the letter, the FDA requested additional clinical trial data to demonstrate the safety and efficacy of orBec®. The FDA also requested nonclinical and chemistry, manufacturing and controls information as part of this letter.

In December 2008, we reached agreement with the FDA on the design of a confirmatory, pivotal Phase 3 clinical trial evaluating orBec® for the treatment of acute GI GVHD under the FDA's Special Protocol Assessment ("SPA") procedure. An agreement via the SPA procedure is an agreement with the FDA that a Phase 3 clinical trial design (e.g., endpoints, sample size, control group and statistical analyses) is acceptable to support a regulatory submission seeking new drug approval. After the study begins, the FDA can only change a SPA for very limited reasons. Further, in June 2009, we received Protocol Assistance feedback from the European Medicines Agency ("EMEA") on the design of the Phase 3 clinical trial for orBec®. The EMEA agreed that should the new confirmatory Phase 3 study produce positive results, the data would be sufficient to support a marketing authorization in all 27 European Union member states. The confirmatory Phase 3 trial is actively enrolling patients and is expected to complete in the second half of 2011.

If the confirmatory Phase 3 trial is successful, we will file a complete response to the FDA action letter. This response is expected to be designated a class II response with a corresponding FDA review time frame of 6 months.

Mortality Results

	Phase 3 Trial		Phase 2 Trial	
	orBec®	Placebo	orBec®	Placebo
Number of patients randomized	62	67	31	29
Number (%) who died	5 (8%)	16 (24%)	3 (10%)	6 (21%)
Hazard ratio (95% confidence interval)	0.33 (0.12, 0.89)		0.47 (0.12, 1.87)	
Death with infection*	3 (5%)	9 (13%)	2 (6%)	5 (17%)
Death with relapse*	3 (5%)	9 (13%)	1 (3%)	4 (14%)

*Some patients died with both infection and relapse of their underlying malignancy.

Among the data from the Phase 3 clinical study of orBec® reported in the January 2007 issue of Blood, the peer-reviewed Journal of the American Society of Hematology, survival at the pre-specified endpoint of 200 days post-transplantation showed a clinically meaningful and statistically significant result. According to the manuscript, "the risk of mortality during the 200-day post-transplantation period was 67% lower with orBec® treatment compared to placebo treatment (hazard ratio 0.33; 95% CI: 0.12, 0.89; p-value 0.03, Wald chi-square test)." The most common proximate causes of death by transplantation day-200 were relapse of the underlying malignancy and infection. Relapse of the underlying hematologic malignancy had contributed to the deaths of 9/67 patients (13.4%) in the placebo arm and 3/62 patients (4.8%) in the BDP arm. Infection contributed to the deaths of 9/67 patients (13.4%) in the placebo arm and 3/62 (4.8%) in the BDP arm. Acute or chronic GVHD was the proximate cause of death in 3/67 patients (4.5%) in the placebo arm and in 1/62 (1.6%) in the BDP arm.

In addition, a subgroup analysis also revealed that patients dosed with orBec® who had received stem cells from unrelated donors had a 94% reduction in the risk of mortality 200 days post-transplantation.

In this Phase 3 study, orBec® showed continued survival benefit when compared to placebo one year after randomization. Overall, 18 patients (29%) in the orBec® group and 28 patients (42%) in the placebo group died within one year of randomization (46% reduction in mortality, p-value 0.04). Results from the Phase 2 trial also demonstrated enhanced long-term survival benefit with orBec® versus placebo. In that study, at one year after randomization, 6 of 31 patients (19%) in the orBec® group had died while 9 of 29 patients (31%) in the placebo group had died (45% reduction in mortality, p-value 0.26). Pooling the survival data from both trials demonstrated that the survival benefit of orBec® treatment was sustained long after orBec® was discontinued and extended well beyond 3 years after the transplantation. As of September 25, 2005, median follow-up of patients in the two trials was 3.5 years (placebo patients) and 3.6 years (orBec® patients), with a range of 10.6 months to 11.1 years. The risk of mortality

was 37% lower for patients randomized to orBec® compared with placebo (p-value 0.03).

A retrospective analysis of survival at 200 days post-transplantation in the supportive Phase 2 clinical trial showed consistent response rates with the Phase 3 trial; three patients (10%) who had been randomized to orBec® had died, compared with six deaths (21%) among patients who had been randomized to placebo, leading to a reduced hazard of day-200 mortality, although not statistically significantly different. Detailed analysis of the likely proximate cause of death showed that mortality with infection or with relapse of underlying malignancy were both reduced in the same proportion after treatment with orBec® compared to placebo. By transplantation day-200, relapse of hematologic malignancy had contributed to the deaths of 1 of 31 patients (3%) in the orBec® arm and 4 of 29 patients (14%) in the placebo arm. Infection contributed to the deaths of 2 of 31 patients (6%) in the orBec® arm and 5 of 29 patients (17%) in the placebo arm.

Safety and Adverse Events

The frequencies of severe adverse events, adverse events related to study drug, and adverse events resulting in study drug discontinuation were all comparable to that of the placebo group in both trials. Patients who remained on orBec® until Day 50 in the Phase 3 study had a higher likelihood of having biochemical evidence of abnormal hypothalamic-pituitary-adrenal axis function compared to patients on placebo. This effect was far less pronounced than those seen in patients on high dose prednisone.

Commercialization and Market

We anticipate the market potential for orBec® for the treatment of acute GI GVHD to be approximately 50% of the more than 10,000 allogeneic bone marrow and stem cell transplantations that occur each year in the U.S.

On February 11, 2009, we entered into a collaboration and supply agreement with Sigma-Tau Pharmaceuticals, Inc. (“Sigma-Tau”) for the commercialization of orBec®. Sigma-Tau is a pharmaceutical company that develops novel therapies for the unmet needs of patients with rare diseases. Pursuant to this agreement, Sigma-Tau has an exclusive license to commercialize orBec® in the U.S., Canada and Mexico (the “Territory”). Sigma-Tau is obligated to make payments upon the attainment of significant milestones, as set forth in the agreement. The first milestone payment of $1 million was made in connection with the enrollment of the first patient in our confirmatory Phase 3 clinical trial of orBec® for the treatment of acute GI GVHD in September 2009. Total additional milestone payments due from Sigma-Tau for orBec® under the agreement could reach up to $9 million. Sigma-Tau will pay us a 35% royalty (Soligenix to provide finished drug product) on net sales in the Territory as well as pay for commercialization expenses, including launch activities. In connection with the execution of the collaboration and supply agreement, we entered into a common stock purchase agreement with Sigma-Tau pursuant to which we sold 25 million shares of our common stock to Sigma-Tau for $0.18 per share, for an aggregate price of $4,500,000. The purchase price was equal to one hundred fifty percent (150%) of the average trading price of our common stock over the five trading days prior to February 11, 2009. On November 26, 2008, prior to entering the collaboration agreement, we sold Sigma-Tau 16,666,667 common shares at $0.09 per share (the market price at the time) for proceeds of $1,500,000 in exchange for the exclusive right to negotiate a collaboration deal with us until March 1, 2009.

On July 28, 2011, we announced the expansion and amendment of its North American licensing partnership with Sigma-Tau for the development and commercialization of orBec® into the “European Territory” (as defined in the amendment). Pursuant to this amendment, we received an up-front payment of $5 million and granted Sigma-Tau an exclusive license to commercialize orBec® in the European territory. The amendment requires Sigma-Tau to make additional payments to us in the aggregate amount of $11 million upon the achievement of certain milestones. The amendment also requires Sigma-Tau to pay us a 40% royalty (Soligenix to provide finished drug product) on net sales in the European Territory and pay for all commercialization expenses, including launch activities.

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Total milestone payments due from Sigma-Tau under the agreement, including the amendment, could reach up to $20 million.

We believe the potential worldwide market for orBec® to be approximately $400 million for all GVHD applications, namely, treatment of acute and chronic GI GVHD and prevention of acute GVHD.

About GVHD

GVHD occurs in patients following allogeneic stem cell transplantation in which tissues of the host, most frequently the gut, liver, and skin, are attacked by lymphocytes from the donor (graft) marrow. Patients with mild to moderate GI GVHD present to the clinic with early satiety, anorexia, nausea, vomiting and diarrhea. If left untreated, symptoms of GI GVHD persist and can progress to necrosis and exfoliation of most of the epithelial cells of the intestinal mucosa, frequently a fatal condition. Approximately 50% of the more than 10,000 annual allogeneic transplantation patients in the U.S. will develop some form of acute GI GVHD.

GI GVHD is one of the most common causes for the failure of stem cell transplantation. These procedures are being increasingly utilized to treat leukemia and other cancer patients with the prospect of eliminating residual disease and reducing the likelihood of relapse. orBec® represents a first-of-its-kind oral, locally acting therapy tailored to treat the gastrointestinal manifestation of GVHD, the organ system where GVHD is most frequently encountered and highly problematic. orBec® is intended to reduce the need for systemic immunosuppressives to treat acute GI GVHD. Currently used systemic immunosuppressives utilized to control GI GVHD substantially inhibit the highly desirable Graft-versus-Leukemia (“GVL”) effect of stem cell transplantations, leading to high rates of aggressive forms of relapse, as well as substantial rates of mortality due to opportunistic infection.

About Allogeneic Hematopoietic Cell Transplantation

Allogeneic hematopoietic cell transplantation (“HCT”) is considered a potentially curative option for many leukemias as well as other forms of blood cancer. In an allogeneic HCT procedure, hematopoietic stem cells are harvested from the blood or bone marrow of a closely matched relative or unrelated person, and are transplanted into the patient following either high-dose chemotherapy or intense immunosuppressive conditioning therapy. The curative potential of allogeneic HCT is now partly attributed to the GVL or Graft-versus-Tumor effects of the newly transplanted donor cells to recognize and destroy malignant cells in the recipient patient.

The use of allogeneic HCT has grown substantially over the last decade due to advances in human immunogenetics, the establishment of unrelated donor programs, the use of cord blood as a source of hematopoietic stem cells and the advent of non-myeloablative conditioning regimens, or mini-transplants, that avoid the side effects of high-dose chemotherapy. Based on the latest statistics available, it is estimated that there are more than 10,000 allogeneic HCT procedures annually in the U.S. and a comparable number in Europe. Estimates as to the current annual rate of increase in these procedures are as high as 20%. High rates of morbidity and mortality occur in this patient population. Clinical trials are also underway testing allogeneic HCT for treatment of some metastatic solid tumors such as breast cancer, renal cell carcinoma, melanoma and ovarian cancer. Allogeneic transplantation has also been studied as a curative therapy for several genetic disorders, including immunodeficiency syndromes, inborn errors of metabolism, and sickle cell disease. The primary toxicity of allogeneic HCT, however, is GVHD in which the newly transplanted donor cells damage cells in the recipient’s gastrointestinal tract, liver and skin.

Future Potential Indications of orBec® and oral BDP

Based on its pharmacological characteristics, orBec® may have utility in treating other conditions of the gastrointestinal tract having an inflammatory component. We have an issued U.S. patent 6,096,731 claiming the use of oral BDP as a method for preventing and treating the tissue damage that is associated with both GI GVHD following HCT, as well as GVHD which also occurs following organ allograft transplantation. We also have an issued U.S. patent 7,704,985 claiming the use of oral BDP to treat IBS, a painful gastrointestinal condition that affects approximately 15% of the population in the industrialized world. We also have European Patent EP 1392321 claiming the use of topically active corticosteroids in orally administered dosage forms that act concurrently to treat inflammation in the upper and lower gastrointestinal tract and European patent EP 1830857 claiming oral BDP in conjunction with a short duration of high-dose prednisone with a rapid taper for the reduction of mortality associated with GVHD and leukemia. We recently completed a Phase 2 trial of orBec® in the prevention of acute GVHD and announced preliminary results from this study. We are targeting to begin a Phase 2 clinical trial in the treatment of chronic GI GVHD in the second half of 2011, pending further funding. In addition, we are exploring the possibility of testing oral BDP (the active ingredient in orBec®) for local inflammation associated with Crohn's Disease, Lymphocytic Colitis, IBS, Ulcerative Colitis, among other indications.

Prevention of Acute GVHD

We have recently completed an exploratory, randomized, double blind, placebo-controlled, Phase 2 "proof of concept" clinical trial of orBec® for the prevention of acute GVHD in patients undergoing myeloablative conditioning regimens with initiation of dosing prior to HCT and continuing through the post-transplantation period. The trial was conducted under an investigator-initiated IND by Paul Martin, M.D., at the FHCRC and was supported, in large part, by a grant from the National Institutes of Health. We did not receive any direct monetary benefit from this grant. The Phase 2 trial enrolled 140 patients with a 2:1 (orBec®:placebo) randomization plan. Preliminary results from this estimation study indicate that orBec® appears safe and well tolerated in this patient population, but did not achieve statistical significance in the primary endpoint, which was the proportion of subjects who developed acute GVHD with severity sufficient to require systemic immunosuppressive treatment on or before day 90 after transplantation. However, the use of orBec® resulted in fewer cases of more severe acute GVHD grades IIb-IV (21% vs. 33% of patients receiving placebo), although this difference was not statistically significant. This result has the potential to be clinically relevant because GVHD grades IIb-IV are associated with more severe disease involving the skin and liver as well as being associated with poorer outcomes, including mortality rates that approach 100% in the grade IV patient population. Further analysis of the complete dataset continues and is aimed at identifying other potential effects seen with orBec® in preventing acute GVHD.

SGX201 - Time Release Formulation of Oral BDP

SGX201 is a delayed-release formulation of BDP specifically designed for oral use. We completed enrollment in a Phase 1/2 clinical trial testing SGX201 in acute radiation enteritis and subject follow-up is expected to be completed by the end of 2011. Patients with rectal cancer who are scheduled to undergo concurrent radiation and chemotherapy prior to surgery were randomized to one of four dose groups. The objectives of the study are to evaluate the safety and maximal tolerated dose of escalating doses of SGX201, as well as the preliminary efficacy of SGX201 for prevention of signs and symptoms of acute radiation enteritis. This program is supported in part by a $500,000 two-year Small Business Innovation Research ("SBIR") grant awarded by the NIH.

We have received "Fast Track" designation from the FDA for SGX201 for radiation enteritis. Fast Track is a designation that the FDA reserves for a drug intended to treat a serious or life-threatening condition and one that demonstrates the potential to address an unmet medical need for the condition. Fast track designation is designed to facilitate the development and expedite the review of new drugs. For instance, should events warrant, we will be eligible to submit

an NDA for SGX201 on a rolling basis, permitting the FDA to review sections of the NDA prior to receiving the complete submission. Additionally, NDAs for Fast Track development programs ordinarily will be eligible for priority review, which implies an abbreviated review time of six months.

About Acute Radiation Enteritis

External radiation therapy is used to treat most types of cancer, including cancer of the bladder, uterine, cervix, rectum, prostate, and vagina. During delivery of treatment, some level of radiation will also be delivered to healthy tissue, including the bowel, leading to acute and chronic toxicities. The large and small bowels are very sensitive to radiation and the larger the dose of radiation the greater the damage to normal bowel tissue. Radiation enteritis is a condition in which the lining of the bowel becomes swollen and inflamed during or after radiation therapy to the abdomen, pelvis, or rectum. Most tumors in the abdomen and pelvis need large doses, and almost all patients receiving radiation to the abdomen, pelvis, or rectum will show signs of acute enteritis.

Patients with acute enteritis may have nausea, vomiting, abdominal pain and bleeding, among other symptoms. Some patients may develop dehydration and require hospitalization. With diarrhea, the gastrointestinal tract does not function normally, and nutrients such as fat, lactose, bile salts, and vitamin B12 are not well absorbed.

Symptoms will usually resolve within 2-6 weeks after therapy has ceased. Radiation enteritis is often not a self-limited illness, as over 80% of patients who receive abdominal radiation therapy complain of a persistent change in bowel habits. Moreover, acute radiation injury increases the risk of development of chronic radiation enteropathy, and overall 5% to 15% of the patients who receive abdominal or pelvic irradiation will develop chronic radiation enteritis.

There are over 100,000 patients annually in the U.S. who receive abdominal or pelvic external beam radiation treatment for cancer, and these patients are at risk of developing acute and chronic radiation enteritis.

LPM™ – Leuprolide

Our Lipid Polymer Micelle (“LPM™”) oral drug delivery system is a proprietary platform technology designed to allow for the oral administration of peptide drugs that are water-soluble but poorly permeable through the gastrointestinal tract. We have previously demonstrated in pre-clinical animal models that the LPM™ technology is adaptable to oral delivery of peptide drugs and that high systemic levels after intestinal absorption can be achieved with the peptide hormone drug leuprolide. The LPM™ system utilizes a lipid based delivery system that can incorporate the peptide of interest in a thermodynamically stable configuration called a “reverse micelle” that, through oral administration, can promote intestinal absorption. Reverse micelles are structures that form when certain classes of lipids come in contact with small amounts of water. This results in a drug delivery system in which a stable clear dispersion of the water soluble drug can be evenly dispersed within the lipid phase. LPM™ is thought to promote intestinal absorption due to the ability of the micelles to open up small channels through the epithelial layer of the intestines that allow only molecules of a certain dimension to pass through while excluding extremely large molecules such as bacteria and viruses. The reverse micelles also structurally prevent the rapid inactivation of peptides by enzymes in the upper gastrointestinal tract via a non-specific enzyme inhibition by surfactant(s) in the formulation.

In pre-clinical studies, the LPM™ delivery technology significantly enhanced the ability of leuprolide to pass through the intestinal epithelium in comparison to leuprolide alone. Leuprolide is a synthetic peptide agonist of gonadotropin releasing hormone, which is used in the treatment of prostate cancer in men and endometriosis in women. Leuprolide exhibits poor intestinal absorption from an aqueous solution with the oral bioavailability being less than 5%. Utilizing LPM™ in rats and dogs, the bioavailability of leuprolide averaged 30% compared to 2.2% for the control oral solution. Based on these promising pre-clinical data, we anticipate preparing for a Phase 1 study in humans to confirm these findings, pending further funding.

An oral version of leuprolide may provide a significant advantage over the currently marketed “depot” formulations. Leuprolide is one of the most widely used anti-cancer agents for advanced prostate cancer in men. Injectable forms of leuprolide marketed under trade names such as Lupron® and Eligard® had worldwide annual sales of more than $1 billion in recent years. Injectable leuprolide is also widely used in non-cancer indications, such as endometriosis in women (a common condition in which cells normally found in the uterus become implanted in other areas of the body), uterine fibroids in women (noncancerous growths in the uterus) and central precocious puberty in children (a condition causing children to enter puberty too soon). Leuprolide is currently available only in injectable, injectable depot and subcutaneous implant routes of delivery which limits its use and utility.

BioDefense Overview

RiVax™

RiVax™ is our proprietary vaccine developed to protect against exposure to ricin toxin, and is the first ricin toxin vaccine to be clinically tested in humans. The vaccine is comprised of a recombinant nontoxic derivative of the ricin A chain which induces antibodies after immunization. Ricin is a potent glycoprotein toxin, derived from the beans of castor plants. It can be cheaply and easily produced, is stable over long periods of time, is toxic by several routes of exposure and thus has the potential to be used as a biological weapon against military and/or civilian targets. As a bioterrorism agent, ricin could be disseminated as an aerosol, by injection, or as a food supply contaminant. The potential use of ricin toxin as a biological weapon of mass destruction has been highlighted in a Federal Bureau of Investigations Bioterror report released in November 2007 entitled Terrorism 2002-2005, which states that "Ricin and the bacterial agent anthrax are emerging as the most prevalent agents involved in WMD investigations" (http://www.fbi.gov/stats-services/publications/terrorism-2002-2005/terror02_05.pdf). The Centers for Disease Control (“CDC”) has classified ricin toxin as a Category B biological agent. Ricin works by first binding to glycoproteins found on the exterior of a cell, and then entering the cell and inhibiting protein synthesis leading to cell death. Once exposed to ricin toxin, there is no effective therapy available to reverse the course of the toxin. Currently, there is no FDA approved vaccine to protect against the possibility of ricin toxin being used in a terrorist attack, or its use as a weapon on the battlefield, nor is there a known antidote for ricin toxin exposure.

The initial Phase 1 clinical trial of RiVax™ was conducted by Ellen Vitetta, PhD at the University of Texas Southwestern Medical Center (“UTSW”) at Dallas, Soligenix's academic partner. The trial demonstrated that RiVax™ is well tolerated and induces antibodies in humans that neutralize the ricin toxin. The functional activity of the antibodies was confirmed by animal challenge studies in mice which survived exposure to ricin toxin after being injected with serum samples from the volunteers. The outcome of the study was published in the Proceedings of the National Academy of Sciences. A second Phase 1 trial supported by an FDA Orphan Products grant to UTSW has completed enrollment utilizing an adjuvant formulation of RiVax™. Preliminary results indicate that RiVax™ appears safe at all doses tested in volunteers. Analysis of human immunogenicity is expected during the second half of 2011.

The National Institute of Allergy and Infectious Diseases (“NIAID”), a division of the National Institutes of Health (“NIH”) has previously awarded us two grants: one for $6.4 million and one for $5.2 million for a total of $11.6 million for the development of RiVax™ covering process development, scale-up and current Good Manufacturing Practice (“cGMP”) manufacturing, and pre-clinical toxicology testing pursuant to the FDA’s “animal rule,” which has supported our research from 2004 to present.

In September 2009, we were awarded a $9.4 million grant from NIAID. The grant will fund, over a five-year period, the development of formulation and manufacturing processes for vaccines, including RiVax™, that are stable at elevated temperatures. The grant will also fund the development of improved thermostable adjuvants expected to result in rapidly acting vaccines that can be given with fewer injections over shorter intervals.

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In January 2011, we entered into a definitive license agreement with the University of Colorado ("CU") for novel technology for use in the development of subunit vaccines with long-term stability, including stability at elevated temperatures. This "heat stabilization" technology is the subject of the $9.4 million grant from NIAID. It is also the subject of several United States and foreign patent applications that address the use of adjuvants in conjunction with vaccines that are formulated to resist thermal inactivation. The license agreement covers thermostable vaccines for biodefense as well as other potential vaccine indications. The novel technology involves the use of several unique process and formulation steps that fix sensitive vaccine ingredients in native configuration. For biodefense indications, we are using the stabilization technology to advance RiVax™, and a subunit vaccine for anthrax prevention. The underlying technology has been developed by Drs. Amber Clausi, John Carpenter and Theodore Randolph at CU-Boulder.

The development of heat-stable vaccines will combine several novel formulation processes with well characterized adjuvants that have been evaluated in numerous vaccine field trials. The formulation and process technology funded by the grant will be applied to the further development of RiVax™, a subunit vaccine for prevention of ricin toxin lethality and morbidity. The grant will also address the development of manufacturing processes and animal model systems necessary for the pre-clinical characterization of vaccine formulations. Further, the grant will fund the concurrent development of at least one other protein subunit vaccine, which is currently expected to be an anthrax vaccine. This could lead to new subunit vaccines that would bypass current cold chain requirements for storage and distribution. Vaccines to be stored in the Strategic National Stockpile ("SNS") and used under emergency situations for biodefense are expected to have long-term shelf life.

In December 2010, the United States Patent and Trademark Office ("USPTO") granted patent #7,829,668 entitled "Compositions and methods for modifying toxic effects of proteinaceous compounds." This patent includes composition claims for the modified ricin toxin A chain, which is the immunogen contained in RiVax™. The issued patent contains claims that describe alteration of sequences within the ricin A chain that affect vascular leak, one of the deadly toxicities caused by ricin toxin.

In January 2011, the FDA granted Orphan Drug Designation to RiVax™ for the prevention of ricin intoxication.

SGX202 – Oral BDP for GI Radiation Injury

In September 2007, our academic partner, the FHCRC, received a $1 million grant from the NIH to conduct pre-clinical studies of oral BDP, also the active ingredient in orBec®, for the treatment of GI radiation injury. In January 2011, we released promising preliminary results from this grant-supported preclinical study of SGX202 in a canine gastrointestinal acute radiation syndrome ("GARS") model. The results indicate that dogs treated with SGX202 demonstrated statistically significant (p=0.04) improvement in survival after exposure to lethal doses of total body irradiation ("TBI") when compared to control dogs. The aim of the study was to determine whether SGX202 could improve survival and GI recovery after TBI using a well-established GARS dog model. Six dogs were exposed to TBI (12 Gy administered at 70 cGy/min), and then given autologous bone marrow and SGX202 with supportive care; four dogs were used as controls and not treated with SGX202. Autologous bone marrow was given to reduce the duration and impact of the radiation-induced hematopoietic syndrome and allow for a focus on measures to treat the GI effects of TBI. SGX202 was administered two hours after TBI and daily until GI recovery (up to day 100 post exposure). Median survival post exposure in the control group was 8 days, compared to greater than 100 days in the SGX202 treated group. These results demonstrate that SGX202 has the potential to reduce the local inflammation in the radiation damaged GI tract. The principal investigator of the study is George E. Georges, M.D., Associate Member of the FHCRC. Our rights to the use of SGX202 are through our license with George McDonald, M.D.

The purpose of the studies funded by the grant was to evaluate the ability of three promising clinical-grade drugs, including oral BDP, given alone or in combination, that are likely to significantly mitigate the damage to the gastrointestinal epithelium caused by exposure to high doses of radiation using a well-established dog model. The GI tract is highly sensitive to ionizing radiation and the destruction of epithelial tissue is one of the first effects of radiation exposure. The rapid loss of epithelial cells leads to inflammation and infection that are often the primary cause of death in acute radiation injury. This type of therapy, if successful, would benefit cancer patients undergoing radiation, chemotherapy, or victims of nuclear-terrorism. In most radiation scenarios, injury to the hematopoietic (blood) system and gastrointestinal tract are the main determinants of survival.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates and judgments on an on-going basis.

Intangible Assets

One of the most significant estimates or judgments that we make is whether to capitalize or expense patent and license costs. We make this judgment based on whether the technology has alternative future uses, as defined in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 730, Research and Development. Based on this consideration, we capitalized all applicable outside legal and filing costs incurred in the procurement and defense of patents.

We capitalize and amortize intangibles over their expected useful life – generally a period of 11 to 16 years. We capitalize legal costs associated with the protection and maintenance of our patents and rights for our current products in both the domestic and international markets. As a late stage research and development company with drug and vaccine products in an often lengthy clinical research process, we believe that patent rights are one of our most valuable assets. Patents and patent applications are a key currency of intellectual property, especially in the early stage of product development, as their purchase and maintenance gives us access to key product development rights from our academic and industrial partners. These rights can also be sold or sub-licensed as part of our strategy to partner our products at each stage of development. The legal costs incurred for these patents consist of work designed to protect, preserve, maintain and perhaps extend the lives of the patents. Therefore, our policy is to capitalize these costs and amortize them over the remaining useful life of the patents. We capitalize intangible assets’ alternative future use as referred to in FASB ASC 350, Intangibles – Goodwill and Other and FASB ASC 730, Research and Development.

These intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or if the underlying program is no longer being pursued. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and the carrying value of the related asset or group of assets.

Research and Development Costs

Research and Development costs are charged to expense when incurred. Research and development includes costs such as clinical trial expenses, contracted research and license agreement fees with no alternative future use, supplies and materials, salaries and employee benefits, equipment depreciation and allocation of various corporate costs. Purchased in-process research and development expense represents the value assigned or paid for acquired research and development for which there is no alternative future use as of the date of acquisition.

Revenue Recognition

Our revenues are generated from NIH grants and the achievement of licensing milestones. The revenue from NIH grants is based upon subcontractor costs and internal costs incurred that are specifically covered by the grant, plus a facilities and administrative rate that provides funding for overhead expenses. These revenues are recognized when expenses have been incurred by subcontractors or when we incur internal expenses that are related to the grant. Licensing milestone revenues are recorded when earned.

Accounting for Warrants

We considered FASB ASC 815, Evaluating Whether an Instrument is Considered Indexed to an Entity's Own Stock, which provides guidance for determining whether an equity-linked financial instrument (or embedded feature) issued by an entity is indexed to the entity's stock, and therefore, qualifying for the first part of the scope exception in paragraph 815-10-15. We evaluated the warrants' provisions and determined that they were indexed to our own stock and therefore to be accounted for as equity for the six months ended June 30, 2011 and 2010.

Stock-Based Compensation

From time to time, we issue common stock to vendors and consultants as compensation for services performed. These shares are typically issued as restricted stock, unless issued to non-affiliates under the 2005 Equity Incentive Plan, where the stock may be issued as unrestricted. The restricted stock can only have the restrictive legend removed if the shares underlying the certificate are sold pursuant to an effective registration statement, which we must file and have approved by the SEC, if the shares underlying the certificate are sold pursuant to Rule 144, provided certain conditions are satisfied, or if the shares are sold pursuant to another exemption from the registration requirements of the Securities Act of 1933, as amended.

We determine stock-based compensation expense for warrants and shares of common stock granted to non-employees in accordance with FASB ASC 718, Stock Compensation, and FASB ASC 505-50, Equity-Based Payments to Non-Employees, and represents the fair value of the consideration received, or the fair value of the equity instruments issued, whichever may be more reliably measured. For options that vest over future periods, the fair value of options granted is amortized as the options vest. The option's price is remeasured using the Black-Scholes model at the end of each quarterly reporting period. Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period.

New Accounting Pronouncements

See Note 2, New Accounting Pronouncements, of the financial statements for a discussion of new accounting pronouncements.

Material Changes in Results of Operations

Three and Six Months Ended June 30, 2011 Compared to 2010

For the three months ended June 30, 2011, we had a net loss of $1,931,317 as compared to a net loss of $1,577,293 for same period in the prior year, representing an increase in the net loss of $354,024 or 22%. For the six months ended June 30, 2011, we had a net loss of $3,651,728 as compared to a net loss of $3,713,553 for the same period in the prior year, representing a decrease of $61,825, or 2%.

For the three and six months ended June 30, 2011, revenues and associated costs related to NIH grants awarded in support of development of our ricin and thermostable vaccines and orBec®. For the three months ended June 30, 2011, we had revenues of $405,820 as compared to $444,642 for the same period in the prior year, representing a decrease of $38,822, or 9%. The decrease in revenues for the three months ended June 30, 2011 was a result of a decrease in NIH grant activities. For the six months ended June 30, 2011, we had revenues of $1,213,825 as compared to $780,438 for the same period in the prior year, representing an increase of $433,387, or 56%. The increases in revenues were a result of increases in NIH grant drawdowns and the associated development work underlying them.

We incurred costs related to those revenues for the three months ended June 30, 2011 and 2010 of $349,511 and $349,093, respectively, representing an increase of $418. For the six months ended June 30, 2011, costs related to revenues were $903,548 as compared to $622,866 for the same period in the prior year, representing an increase of $280,682, or 45%. These costs relate to payments made to subcontractors in connection with research performed pursuant to the grants. The increases are due to work performed on the NIH grant revenues discussed above.

Our gross profit for the three months ended June 30, 2011 was $56,309 as compared to $95,549 for the same period in 2010, representing a decrease of $39,240 or 41%. The decrease in gross profit is directly related to the decrease in grant revenue. For the six months ended June 30, 2011, gross profit was $310,277 as compared to $157,572 for the same period in the prior year representing an increase of $152,705, or 97%. The increase in gross profit is due to the increase in grant revenues discussed above and a 2011 reimbursement of certain prior period salary costs for which there is no current period cost.

Research and development expenses increased by $236,340 or 22%, to $1,307,051 for the three months ended June 30, 2011 as compared to $1,070,711 for the same period in 2010. This increase is primarily attributable to increased patient enrollment and activity in connection with the confirmatory Phase 3 clinical trial of orBec®. For the six months ended June 30, 2011, research and development expenses were $2,563,186 compared to $2,699,002 for the same period in 2010, resulting in a spending decrease of $105,816 or 4%. This was partially due to the one time patent write-off cost of $378,501 in 2010 in connection to the return of the botulinum toxin vaccine license to Thomas Jefferson University. During the three and six months ended June 30, 2011, we incurred expenses of $926,615 and $1,713,192, respectively, in connection with the conduct of the confirmatory Phase 3 clinical trial of orBec® for the treatment of acute GI GVHD and related studies.

General and administrative expenses decreased by $94,327, or 17%, to $450,179 for the three months ended June 30, 2011, as compared to $544,506 for the same period in 2010. This decrease is primarily attributable to investor relation activities associated with our equity financing in June 2010. For the six months ended June 30, 2011, general and administrative expenses was $1,014,091 representing a decrease of $68,512, or 6% compared to $1,082,603 for the same period in 2010.

Stock-based compensation expenses related to research and development increased $166,723 or 417%, to $206,671 for the three months ended June 30, 2011, as compared to $39,948 for the same period in 2010. Stock-based compensation expenses related to research and development increased $243,188 or 303%, to $323,340 for the six months ended June 30, 2011, as compared to $80,152 for the same period in 2010. Stock-based compensation expenses related to general and administrative increased $4,544, or 22%, to $25,198 for the three months ended June 30, 2011, as compared to $20,654 for the same period in 2010. Stock-based compensation expenses related to general and administrative increased $22,583, or 53%, to $65,296 for the six months ended June 30, 2011, as compared to $42,713 for the same period in 2010. These increases result from a large grant in January 2011 to a new employee, 25% of which vested at issuance and was immediately recognized into costs.

Financial Condition

Cash and Working Capital

As of June 30, 2011, we had cash and cash equivalents of $4,156,749 as compared to $7,451,714 as of December 31, 2010, representing a decrease of $3,294,965 or 44%. As of June 30, 2011, we had working capital of $3,165,990 as compared to working capital of $6,101,103 as of December 31, 2010, representing a decrease of $2,935,113 or 48%. The decrease in cash and working capital was the result of cash used in operating activities over the period, offset by $255,000 in proceeds from issuances of common stock under the Fusion Equity line and stock option exercises. For the six months ended June 30, 2011, our cash used in operating activities was $3,506,317 as compared to $2,506,355 for the same period in 2010, representing an increase of $999,962, or 40%.

Based on our current rate of cash outflows, cash on hand, the timely collection of milestone payments under collaboration agreements, recently announced European territory license with Sigma-Tau, which provided a $5,000,000 up front payment, proceeds from our grant-funded programs, and potential proceeds from the Fusion Capital transaction, we believe that our current cash will be sufficient to meet the anticipated cash needs for working capital and capital expenditures into the first quarter of 2013.

Our plans with respect to our liquidity management include the following:

- We have approximately $8.4 million in active grant funding still available to support our research programs through 2011 and beyond. Additionally, we have submitted additional grant applications for further support of our programs with various funding agencies, and have received encouraging feedback to date on the likelihood of additional funding.
    - We have approximately $7.4 million in available capacity under its Fusion Capital equity facility through October 2011. Although we have historically drawn down modest amounts under this agreement, we could draw more within certain contractual parameters.
- We will seek non-dilutive funding through completion of partnerships for our orBec®/oral BDP programs in territories outside North America and Europe;
- We have continued to use equity instruments to provide a portion of the compensation due to vendors and collaboration partners and expect to continue to do so for the foreseeable future;
- We will pursue Net Operating Losses (“NOL”) sales in the State of New Jersey pursuant to its Technology Business Tax Certificate Transfer Program. Based on the receipt of $245,810 in proceeds pursuant to NOL sales in 2010 and assuming our application is accepted, we expect to participate in the expanded program during 2011 and beyond; and
- We may seek additional capital in the private and/or public equity markets to continue our operations, respond to competitive pressures, develop new products and services, and to support new strategic partnerships. We are currently evaluating additional equity financing opportunities and may execute them when appropriate. However, there can be no assurances that we can consummate such a transaction, or consummate a transaction at favorable pricing.

Expenditures

Under our budget and based upon our existing product development agreements and license agreements pursuant to letters of intent and option agreements, we expect our total research and development expenditures for the next 12 months to be approximately $7.7 million before any grant reimbursements, of which $4.6 million relates to the BioTherapeutics business and $3.1 million relates to the BioDefense business. We anticipate grant revenues in the next 12 months to completely offset research and development expenses for the development of our thermostable vaccine technology. We anticipate grant revenues in the next 12 months to partially offset research and development

expenses for the confirmatory Phase 3 clinical trial of orBec® in the treatment of acute GI GVHD and the development of SGX201 in acute radiation enteritis.

The table below details our costs for research and development by program and amounts reimbursed under grants for the six months ended June 30:

	2011	2010
Research & Development Expenses		
orBec®	$1,713,193	$1,488,492
RiVax™ and thermostable vaccines	845,916	796,432
BT-VACC™ (program terminated)	-	378,501
Oraprine™	1,500	3,000
LPM™-Leuprolide	2,577	2,577
Total	$2,563,186	$2,669,002
Reimbursed under Grants		
orBec®	$328,503	$133,717
RiVax™ and thermostable vaccines	575,045	381,149
BT-VACC™ (program terminated)	-	108,000
Total	903,548	$622,866
Grand Total	$3,466,734	$3,291,868

Commitments

The Company has commitments of approximately $505,000 as of June 30, 2011 pursuant to its agreement with Numoda Corporation for electronic data capture in connection with the confirmatory Phase 3 clinical trial of orBec® that began in September 2009 and is expected to complete in second half of 2011.

The Company has several licensing agreements with consultants and universities, which upon clinical or commercialization success may require the payment of milestones and/or royalties if and when achieved. However, there can be no assurance that clinical or commercialization success will occur.

On April 1, 2009, the Company entered into a sub-lease agreement through March 31, 2012 for office space in Princeton, New Jersey. The Company was required to provide four months of rent as a security deposit. The rent for the first 18 months will be approximately $7,500 per month, or $17.00 per square foot. This rent increased to approximately $7,650 per month, or $17.50 per square foot, for the remaining 18 months.

In February 2007, the Company’s Board of Directors authorized the issuance of the following shares to Dr. Schaber, Mr. Myrianthopoulos, Dr. Brey and certain other employees and a consultant, upon the completion of a transaction, or series or a combination of related transactions negotiated by our Board of Directors whereby, directly or indirectly, a majority of our capital stock or a majority of its assets are transferred from us and/or our stockholders to a third party: 1,000,000 common shares to Dr. Schaber; 750,000 common shares to Mr. Myrianthopoulos; 200,000 common shares to Dr. Brey; and 450,000 common shares to employees and a consultant shall be issued.

Employees with employment contracts have severance agreements that may provide separation benefits from the Company if they are involuntarily separated from employment.

As a result of the above agreements, the Company has future contractual obligations over the next five years as follows:

Year	Research and Development	Property and Other Leases	Total
2011	$ 365,000	$48,834	$413,834
2012	355,000	28,761	383,761
2013	75,000	5,793	80,793
2014	75,000	1,448	76,448
2015	75,000	-	75,000
Total	$ 945,000	$84,836	$1,029,836

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the majority of our investments are in short-term marketable securities. Due to the nature of our short-term investments, we believe that we are not subject to any material market risk exposure. We do not have any foreign currency or other derivative financial instruments.

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, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective.

Changes in Internal Controls

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal controls that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls. However, effective as of April 26, 2011, our Controller resigned and our Chief Financial Officer, on an interim basis, assumed substantially all of the responsibilities and duties of the Controller function. On June 2, 2011, the Company announced the appointment of Joseph Warusz as Vice President of Administration and Controller.

PART II - OTHER INFORMATION.

ITEM 1A – RISK FACTORS

We have identified no additional risk factors other than those included in Part I, Item 1A of our Form 10-K for the fiscal year ended December 31, 2010. Readers are urged to carefully review our risk factors because they may cause our results to differ from the "forward-looking" statements made in this Report. Additional risks not presently known to us or other factors not perceived by us to present significant risks to our business at this time also may impair our business, financial condition and results of operations. We do not undertake to update any of the "forward-looking" statements or to announce the results of any revisions to these "forward-looking" statements except as required by law.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In thirteen separate transactions during the six months ended June 30, 2011, the Company issued an aggregate of 1,422,807 shares of common stock under the common stock purchase agreement with Fusion Capital Fund II, LLC (“Fusion Capital”). The purchase price was calculated in accordance with the formula set forth in the purchase agreement. The Company received an aggregate of $255,000 in proceeds which approximated the shares’ fair market value on the dates of issuance. The issuance of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

ITEM 6 - EXHIBITS

EXHIBIT NO.	DESCRIPTION
31.1	Certification of Chief Executive Officer pursuant to Exchange Act rule 13(a)-14(a)(under Section 302 of the Sarbanes-Oxley Act of 2002).
31.2	Certification of Chief Financial Officer pursuant to Exchange Act rule 13(a)-14(a) (under Section 302 of the Sarbanes-Oxley Act of 2002).
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLIGENIX, INC.

August 12, 2011	by /s/ Christopher J. Schaber Christopher J. Schaber, PhD President and Chief Executive Officer (Principal Executive Officer)
August 12, 2011	by /s/ Evan Myrianthopoulos Evan Myrianthopoulos Chief Financial Officer (Principal Financial Officer)
August 12, 2011	by /s/ Joseph Warusz Joseph Warusz Vice President of Administration and Controller (Principal Accounting Officer)

EXHIBIT INDEX

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32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

der approval of the Seventh Restated 2002 Incentive Plan will provide flexibility to grant both equity-based and cash-based awards under the Plan that qualify as "performance-based" compensation under section 162(m) of the Code, we retain the ability to grant awards under the Plan that do not qualify as "performance-based" compensation under section 162(m) of the Code.

Extension of Term of the Plan. The Seventh Restated 2002 Incentive Plan will expire on December 3, 2024, but awards outstanding under the Plan may extend beyond that date.

The Seventh Restated 2002 Incentive Plan and the Company’s governance policies contain a number of provisions that we believe are consistent with the interests of shareholders and sound corporate governance practices, including:

Fungible share pool. The Plan uses a fungible share pool under which each stock option counts as one share against the plan share reserve and each stock unit award counts as 1.75 shares against the plan share reserve.

No liberal share counting. The Plan prohibits the reuse of shares withheld or delivered to satisfy the exercise price of an option or to satisfy tax withholding requirements.

No repricing of options. The Plan does not permit the repricing of options either by amending an existing award or by substituting a new award at a lower price without shareholder approval.

No discounted options. The Plan prohibits the granting of stock options with an exercise price less than the fair market value of the common stock on the date of grant.

Limitation on term of stock options. The maximum term of each stock option is ten years.

No dividends on unearned performance-based awards. The Plan prohibits the current payment of dividends or dividend equivalents on unearned performance-based awards.

Clawback. Awards granted under the Plan are subject to the Company’s clawback policy for the recoupment of incentive compensation under certain circumstances.

Summary of the Plan

The full text of the Seventh Restated 2002 Incentive Plan is included in Appendix A to this Proxy Statement. The following description of the Plan is a summary and is qualified in its entirety by reference to the complete text of the Plan.

Purpose of the Plan; Administration. The Plan is intended to strengthen the Company by allowing selected employees, directors and consultants to the Company to participate in the Company’s future growth and success by offering them an opportunity to acquire stock in the Company in order to retain, attract and motivate them. The Board has ultimate

responsibility for administering the Plan but may delegate this authority to a committee of the Board or an executive of the Company, subject to certain limitations. The Board has delegated responsibility to the Compensation Committee (the “Committee”) to administer the Plan. The Committee has broad discretion to determine the amount and type of grants and their terms and conditions. The Committee has delegated certain authority to Messrs. Jelinek and Brotman with respect to awards not involving executive officers or directors. Individual grants will generally be based on a person’s position and present and potential contributions to the Company.

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Eligibility. Any employee, director or individual consultant of the Company or any of its subsidiaries is eligible to receive awards under the Plan, except that only employees are eligible to receive incentive stock options. As of November 23, 2014, the Company had approximately 4,300 employees (including over 2,600 warehouse managers and assistant managers), eleven non-employee directors and eight consultants who the Company estimates are eligible to participate in the Plan. Approximately 92% of the RSUs granted in 2014 were to individuals who were not directors or executive officers.

Types of Awards. Under the Plan, the Company may award (i) options, (ii) stock unit awards, and (iii) cash-based awards. These awards are described in more detail below. Options were last granted in 2006. Options that have been issued have all been subject to vesting ratably over up to five years. The Company's present intention is that any options and stock unit awards granted under the Plan to officers and employees would continue to be subject to the five-year vesting requirement, subject to accelerated vesting for long-term service.

Options. Options can be granted under the Plan in the form of incentive stock options ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or nonstatutory stock options ("NSOs"). The Committee may condition the grant upon the attainment of specified performance goals or other criteria, which need not be the same for all participants.

The exercise price of any option may not be less than the fair market value of the shares subject to the option on the date of grant (or 110% of the fair market value in the case of ISOs granted to employees who own more than 10% of the common stock). Options will become exercisable in accordance with the vesting schedule determined by the Committee or its delegates. The term of any option granted under the Plan may not exceed ten years. In addition, ISOs are subject to certain other limitations in order to take advantage of the favorable U.S. tax treatment that may be available for ISOs.

Options generally may be exercised at any time within 120 days after termination of a participant's employment by, or consulting relationship with, the Company, but only to the extent exercisable at the time of termination or, if such termination occurs after the first anniversary after the grant date, to the extent the option would have vested as of the time of termination if it vested in daily (rather than annual) increments. However, if termination is due to the participant's death or disability, the option generally may be exercised within one year. In addition, upon a participant's death, unvested options granted to that participant will become vested with respect to (i) all unvested shares if the participant is an officer of the Company or has been continuously employed by the Company for ten years at the date of death; and (ii) 50% of the unvested shares for all other participants who are employed by the Company at the date of death. Except as authorized by the Committee or its delegates, no option will be assignable or otherwise transferable by a participant, other than by will or by the laws of descent and distribution, to a grantor trust or partnership for estate planning purposes, or in connection with a qualified domestic relations order. The consideration payable upon the exercise of any option and any related taxes must generally be paid in cash or check. The Committee, in its sole discretion, may authorize payment by the tender of common stock already owned by the participant or other methods.

Stock Unit Awards. Each stock unit award will contain provisions regarding (i) the number of shares subject to the award, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the performance criteria, if any, that will determine the number of shares vested, (iv) such terms and conditions on the grant, issuance, vesting and forfeiture of the shares, as applicable, as may be determined from time to time by the Committee, (v) restrictions on the transferability of the award, and (vi) such further terms and conditions, in each case not inconsistent with the Plan, as may be determined from time to time by the Committee. In the event that a participant's relationship with the Company terminates, the Company may reacquire any or all of the shares of common stock held by the participant that have not vested or that are otherwise subject to forfeiture conditions. Stock unit awards may be awarded in consideration for past services. Rights under a stock unit award may not be transferred other than by will or by the laws of descent and distribution unless the stock unit right agreement specifically provides for transferability. Stock unit awards are subject to the accelerated vesting for long service as follows: where the years of service equal at least 25, one-third of the then-unvested RSUs will vest; at 30 years of service, two-thirds of the then-unvested RSUs will vest; and at 35 years of service, 100% of the then-unvested RSUs will vest. Employees who attain the specified years of service receive shares under the accelerated vesting provisions on the vesting date.

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Cash-Based Awards. Under the Plan the Committee may make awards to employees that are denominated in cash, which may be payable in cash, stock, or stock units.

Performance Awards

Performance Goals and Criteria. Under section 162(m) of the Code, we generally are prohibited from deducting compensation paid to our principal executive officer and our three other most highly compensated executive officers (other than our principal financial officer) in excess of $1 million per person in any year. Compensation that qualifies as "qualified performance-based compensation" under section 162(m) of the Code is excluded for purposes of calculating the amount of compensation subject to the $1 million limit.

If the Committee intends to qualify an award under the Plan as "qualified performance-based compensation," the performance goals selected by the Committee may be based on satisfaction of performance criteria, the Committee will use any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit, affiliate or business segment, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee for the award: (i) cash flow; (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average shareholders' equity; (vii) total shareholder return; (viii) return on capital; (ix) return on assets or net assets; (x) return on investment; (xi) revenue; (xii) income or net income; (xiii) operating income or net operating income; (xiv) operating profit or net operating profit; (xv) operating margin; (xvi) return on operating revenue; (xvii) market share; (xviii) sales or revenue growth; (xix) overhead or other expense reduction; (xx) growth in shareholder value relative to the moving average of the S&P 500 Index or a peer group index; (xxi) credit rating; (xxii) strategic plan development and implementation; (xxiii) improvement in workforce diversity, and (xxiv) any other similar criteria. The Committee may provide that any evaluation of performance under objectively determinable performance criteria to exclude any of the following events that occurs during a performance period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (d) accruals for reorganization and restructuring programs; and (e) any extraordinary non-recurring items as described in Accounting Standards Codification (ASC) 225-20 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year.

Limitations. Subject to certain adjustments for changes in our corporate or capital structure described above, participants who are granted awards intended to qualify as "qualified performance-based compensation" under section 162(m) of the Code may not be granted stock options or stock unit awards for more than 500,000 shares in any calendar year. The maximum dollar value of cash-based awards granted to any participant in any calendar year that are intended to satisfy the requirements for "qualified performance-based compensation" under section 162(m) of the Code may not exceed $1 million.

General Provisions

The Committee may waive in whole or in part any or all restrictions, conditions, vesting or forfeiture provisions with respect to any award (other than an award to an executive officer for which the Board retains authority) made under the Plan. The Board may amend, alter or discontinue the Plan or any award at any time, except that the consent of a participant is generally required if the participant's rights under an outstanding award would be impaired. The Plan requires shareholders to approve an amendment to the Plan to comply with applicable law, including applicable listing standards.

In the event of any stock split, reverse stock split, recapitalization, combination or reclassification of stock, stock dividend, spin-off, extraordinary cash dividend or similar change to the capital structure of the Company (not including a "fundamental transaction" or "change of control"), the Board will make appropriate and equitable adjustments to preserve the value of outstanding and future awards, including adjustments to: (i) the number and type of awards that may be granted under the Plan; (ii) the number and type of awards that may be granted

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to any individual under the Plan; (iii) the purchase price of any stock award; and (iv) the option price and number and class of securities issuable under each outstanding option. Subject to the foregoing requirement, the specific form of any such adjustments will be determined by the Board. In the event of a "fundamental transaction" involving the Company, the Board may take one or more of the following actions: (a) arrange for the substitution of options; (b) accelerate the vesting and termination of outstanding options; or (c) cancel outstanding options in exchange for cash payments to participants. The Board is not required to adopt the same rules for each option or each participant. A "fundamental transaction" is a merger of the Company with another entity in a transaction in which the Company is not the surviving entity or a transaction or other event that results in other securities being substituted for common stock or common stock no longer being issuable. The Plan specifies that a "change of control" will exist upon the occurrence of any of the following events: (i) at any time during any two consecutive year period, at least a majority of the Board shall cease to consist of "Continuing Directors" (meaning directors of the Company who were directors at the beginning of such two-year period, or who subsequently became directors and whose election, or nomination for election by the Company's shareholders, was approved by a majority of the then Continuing Directors); or (ii) certain persons or groups acquire beneficial ownership of common stock having 30% or more of the voting power of all outstanding common stock, unless such acquisition is approved by a majority of the directors of the Company in office immediately preceding such acquisition; or (iii) a merger or consolidation occurs to which the Company is a party, in which outstanding shares of common stock are converted into shares of another company or other securities (of either the Company or another company) or cash or other property. The Plan permits any of the above-described actions in connection with a change of control event. Further, the Board may take similar actions upon a divestiture of any of its affiliates.

The Plan constitutes an unfunded plan for incentive and deferred compensation. The Company is not required to create trusts or arrangements to meet its obligations to deliver stock or make payments.

New Plan Benefits

All awards to employees, officers, directors and consultants under the Plan are made at the discretion of the Board and its delegates. Therefore, the benefits and amounts that will be received or allocated under the plan are not determinable at this time. Please refer to the description of grants made to named Executive Officers in the last fiscal year described in the "Fiscal 2014 Grants of Plan-Based Awards" table. Grants made to non-employee directors in the last fiscal year are described in "Compensation of Directors."

Existing Plan Benefits

The following table sets forth information with respect to options previously granted under the Plan:

Name	Number of Shares Covered by Option Awards
W. Craig Jelinek	1,612,992
Jeffrey H. Brotman	2,823,796
Richard A. Galanti	2,053,385
Joseph P. Portera	1,405,193
Dennis R. Zook	1,219,646
All current executive officers as a group	16,272,902
All non-employee directors as a group	4,556,748
Non-executive officer employee group	121,211,408

Federal Income Tax Consequences

The following is a brief summary of the U.S. federal income tax consequences of the Plan generally applicable to the Company and to participants in the Plan who are subject to U.S. federal taxes. The summary is based on the Code, applicable Treasury Regulations and administrative and judicial interpretations thereof,

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each as in effect on the date of this Proxy Statement, and is, therefore, subject to future changes in the law, possibly with retroactive effect. The summary is general in nature and does not purport to be legal or tax advice. Furthermore, the summary does not address issues relating to any U.S. gift or estate tax consequences or the consequences of any state, local or foreign tax laws.

Nonqualified Stock Options. A participant generally will not recognize taxable income upon the grant or vesting of a nonqualified stock option with an exercise price at least equal to the fair market value of our common stock on the date of grant and no additional deferral feature. Upon the exercise of a nonqualified stock option, a participant generally will recognize compensation taxable as ordinary income in an amount equal to the difference between the fair market value of the shares underlying the stock option on the date of exercise and the exercise price of the stock option. When a participant sells the shares, the participant will have short-term or long-term capital gain or loss, as the case may be, equal to the difference between the amount the participant received from the sale and the tax basis of the shares sold. The tax basis of the shares generally will be equal to the greater of the fair market value of the shares on the exercise date or the exercise price of the stock option.

Incentive Stock Options. A participant generally will not recognize taxable income upon the grant of an incentive stock option. If a participant exercises an incentive stock option during employment or within three months after employment ends (12 months in the case of permanent and total disability), the participant will not recognize taxable income at the time of exercise for regular U.S. federal income tax purposes (although the participant generally will have taxable income for alternative minimum tax purposes at that time as if the stock option were a nonqualified stock option). If a participant sells or otherwise disposes of the shares acquired upon exercise of an incentive stock option after the later of (a) one year from the date the participant exercised the option and (b) two years from the grant date of the stock option, the participant generally will recognize long-term capital gain or loss equal to the difference between the amount the participant received in the disposition and the exercise price of the stock option. If a participant sells or otherwise disposes of shares acquired upon exercise of an incentive stock option before these holding period requirements are satisfied, the disposition will constitute a “disqualifying disposition,” and the participant generally will recognize taxable ordinary income in the year of disposition equal to the excess of the fair market value of the shares on the date of exercise over the exercise price of the stock option (or, if less, the excess of the amount realized on the disposition of the shares over the exercise price of the stock option). The balance of the participant’s gain on a disqualifying disposition, if any, will be taxed as short-term or long-term capital gain, as the case may be.

With respect to both nonqualified stock options and incentive stock options, special rules apply if a participant uses shares of common stock already held by the participant to pay the exercise price or if the shares received upon exercise of the stock option are subject to a substantial risk of forfeiture by the participant.

Stock Units. A participant generally will not have taxable income upon the grant of stock unit awards. Instead, the participant will recognize ordinary income at the time of payout equal to the fair market value (on the payout date) of the shares received minus any amount paid.

Cash-Based Awards. The U.S. federal income tax consequences of cash-based awards will depend upon the specific terms of each award.

Tax Consequences to the Company. In the foregoing cases, we generally will be entitled to a deduction at the same time, and in the same amount, as a participant recognizes ordinary income, subject to certain limitations imposed under the Code.

Section 409A of the Code. We intend that awards granted under the Plan comply with, or otherwise be exempt from, section 409A of the Code, but make no representation or warranty to that effect.

Tax Withholding. We are authorized to deduct or withhold from any award granted or payment due under the Plan, or require a participant to remit to us, the amount of any withholding taxes due in respect of the award or payment and to take such other action as may be necessary to satisfy all obligations for the payment of applicable withholding taxes. We are not required to issue any shares of common stock or otherwise settle an award under the Plan until all tax withholding obligations are satisfied.

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Vote Required

The affirmative vote of a majority of the votes cast on this proposal at the Annual Meeting is required to adopt the Plan.

The Board of Directors unanimously recommends that you vote FOR Proposal 4.

Equity Compensation Plan Information
(at Fiscal Year-End)

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights[A]	Weighted-average exercise price of outstanding options, warrants and rights ($)[B]	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))[C]
Equity compensation plans approved by security holders	10,092,964	40.92	7,972,000
Equity compensation plans not approved by security holders	—	—	—
Total	10,092,964	40.92	7,972,000

(A) Includes 9,117,305 shares of common stock issuable upon vesting of outstanding RSUs granted under the Sixth Restated 2002 Stock Incentive Plan and predecessor plans.

(B) The weighted-average exercise price does not include the shares issuable upon vesting of RSUs, which have no exercise price.

(C) Available for issuance under the Sixth Restated 2002 Stock Incentive Plan, assuming issuance as RSUs.

PROPOSALS 5(a) AND 5(b):
PROPOSALS TO AMEND THE ARTICLES OF INCORPORATION TO REDUCE THE VOTING REQUIREMENTS FOR REMOVAL OF DIRECTORS FOR CAUSE AND FOR AMENDING ARTICLE VIII OF THE ARTICLES OF INCORPORATION

Under Costco Wholesale’s governing documents, a simple majority-vote standard (that is, the number of votes cast in favor exceed the number of votes cast against) applies to nearly all matters submitted to a shareholder vote. As permitted by Washington law, for decades our Articles of Incorporation (Articles) have provided for three exceptions:

- Approval by two-thirds of the shares outstanding is required: to amend the Articles regarding classification of the board; and to amend the provision in Article VIII dealing with removal of directors only for cause; and
- Approval by a majority of the shares outstanding is required for shareholders to remove a director for cause.

These proposals, submitted to shareholders by the Board of Directors, seek shareholder approval of amendments to Article VIII to permit removal of a director from office for cause based on a simple majority vote and to remove the two-thirds vote standard for amending Article VIII. Each proposal will be voted on separately, and the effectiveness of either proposal is not conditioned on the approval of the other proposal.

Purpose and Effect of the Proposals

These proposals follow the Board of Directors' ongoing review of our corporate governance principles, including consideration of a non-binding shareholder proposal approved by shareholders at the January 2014 annual meeting. That proposal requested that our Board take the steps necessary so that each voting requirement in our Articles and Bylaws that calls for greater than a simple majority vote be eliminated and replaced with a simple majority vote standard. As disclosed in the proxy statement last year, shareholder approval of that proposal did not itself amend the Articles. The Board must first authorize any amendments to the Articles, and

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shareholders must then approve each amendment with an affirmative vote of not less than two-thirds of the outstanding shares entitled to vote generally in the election of directors. Though approved by a majority of the votes cast, the number of votes cast in favor of the proposal presented at the January 2014 annual meeting represented substantially less than the two-thirds threshold necessary to amend the applicable provisions of the Articles.

After further analysis of the advantages and disadvantages of reducing the voting requirements, and taking into account the results of the 2014 advisory vote, the Board has determined to submit these proposals to shareholders for a vote. The Board recognized that the current voting standards are designed to protect shareholders' interests because they ensure a broader shareholder voice in a very important, yet highly unlikely, event of a vote on removing a director. The Board also considered the following factors:

- Our Articles provide that a director may be removed by the shareholders only for "cause," as defined in our Articles, at a special meeting called for that purpose by shareholders of record holding at least 10% of the shares outstanding. "Cause" is defined narrowly: (i) conviction of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or (ii) adjudication for gross negligence or dishonest conduct in the performance of a director's duty to the corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal.
- The director removal provision is not an impediment to other shareholder rights regarding directors. Shareholders are permitted to nominate director candidates and can vote for certain directors each year at the annual meeting.
- If in any uncontested election of directors a nominee receives a greater number of "withhold" votes than votes "for," the nominee will offer his or her resignation to the Board. A committee of independent directors whose election is not at issue will determine and publicly report the action to be taken with respect to the resignation offer.

The Board believes that the proposals strike an appropriate balance between the Board's continuing efforts to protect shareholder interests while remaining responsive to corporate governance concerns.

Proposal 5(a): Reduce Voting Standard for Removal of Directors

Under Article VIII of our current Articles, subject to the rights of the holders of any series of preferred stock, a director may be removed only for "cause" and only by approval of a majority of the shares outstanding, as opposed to a simple majority. Proposal 5(a) would amend Article VIII as set forth below under the heading "Text of the Proposed Amendment to Article VIII of the Articles of Incorporation" to change the voting standard so that a director may be removed for cause if the number of votes cast to remove the director exceeds the number of votes cast not to remove the director. For Proposal 5(a) to be approved, an affirmative vote is required of not less than two-thirds of the outstanding shares entitled to vote generally in the election of directors. If approved by the required vote, Proposal 5(a) would be effected by filing of Articles of Amendment to the Articles of Incorporation.

Proposal 5(b): Reduce Voting Standard for Future Amendment of Article VIII of the Articles of Incorporation.

Under our current Articles, which governs the removal of directors only for cause, Article VIII may only be altered or eliminated by an amendment approved by two-thirds of the shares outstanding. Proposal 5(b) would amend Article VIII as set forth below under the heading "Text of the Proposed Amendment to Article VIII of the Articles of Incorporation" to remove the supermajority vote standard for amending Article VIII. For Proposal 5(b) to be approved, an affirmative vote is required of not less than two-thirds of the outstanding shares entitled to vote generally in the election of directors. If approved by the required vote, Proposal 5(b) would be effected by filing of Articles of Amendment to the Articles of Incorporation.

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Board Classification.

The proposed amendments do not modify the two-thirds voting standard for amending the provision in the Articles regarding classification of the Board of Directors. Following passage of a shareholder proposal at the 2013 annual meeting urging the Board to take steps to amend the Articles to eliminate classification of the Board, the Board afforded shareholders the opportunity at the January 2014 annual meeting to vote on a proposal to amend the Articles to change the method of electing directors. As explained in the proxy statement last year, since the Company went public in 1985, its Articles have required that directors be elected for three-year terms and that approximately one-third of the board seats are up for election every year. The Board believes that this classified board structure has contributed to the Company's long-term operational success and delivery of strong shareholder returns. Nevertheless, the Board submitted a declassification proposal to the Company's shareholders to give shareholders an opportunity to cast a binding vote on the matter. The Board made no recommendation as to voting "for" or "against" the amendment, but each director advised the Company that as a shareholder he or she intended to vote against the proposal.

This proposed amendment failed not only to achieve the two-thirds threshold necessary to approve the amendment (by almost 90 million shares) - it failed to obtain the vote of even a majority of shares outstanding. The Company did not receive this year a shareholder proposal for declassification. The Board continues to believe that at this time the classified structure should be retained, and that the two-thirds voting requirement to amend the structure serves to retain that structure absent broad shareholder support to declassify.

The Board became aware in January 2014 of a third-party recommendation that shareholders withhold voting in favor of directors standing for re-election at the January 2014 annual meeting because of a claimed failure by the Board to implement the advisory shareholder proposal passed in 2013 calling for declassification of the board. This was based on the Board's decision to make no recommendation as to the declassification amendment put before the shareholders in January 2014. The Board believes that this recommendation was unwarranted, for a number of reasons:

- the 2014 vote afforded all shareholders an unimpeded opportunity to vote for declassification;
- the absence of a Board recommendation did not pre-determine the outcome of that vote; indeed, in the Company's experience increasingly shareholders cast their votes based not on the recommendation of any person or group but on their own objective assessments of the matters at hand; and
- the directors standing for re-election (and the entire board of directors) had overseen operating and financial performance of the Company that was quite favorable by well-established measures, such that a disagreement about a single issue (whether to recommend declassification) did not warrant entirely removing these individuals from board service.

TEXT OF THE PROPOSED AMENDMENTS TO ARTICLE VIII OF THE ARTICLES OF INCORPORATION

Set forth below is the text of Article VIII of our Articles of Incorporation as it would be amended by Proposals 5 (a) and 5 (b). In both cases deletions and additions to the current Article VIII of our Articles of Incorporation are indicated by strikeouts and by underlining, respectively:

Proposal 5 (a): Reduce Voting Standard for Removal of Directors

Subject to the rights of holders of any series of Preferred Stock then outstanding, any or every director, or the entire board of directors, may be removed from office only for cause and only by the affirmative vote of the holders of a majority of the voting power of all shares of this corporation entitled to vote for the election of directors if the number of votes cast to remove the director exceeds the number of votes cast not to remove the director. As used herein, "for cause" means either (i) conviction of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or (ii) adjudication for gross negligence or dishonest conduct in the performance of a director's duty to this corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal. Notwithstanding anything to the contrary, this Article may be

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altered or eliminated only by amendment to this Article approved by two-thirds of the votes entitled to be cast by each voting group entitled to vote on such amendment.

Proposal 5(b): Reduce Voting Standard for Future Amendment of Article VIII of the Articles of Incorporation.

Subject to the rights of holders of any series of Preferred Stock then outstanding, any director, or the entire board of directors, may be removed from office only for cause and only by the affirmative vote of the holders of a majority of the voting power of all shares of this corporation entitled to vote for the election of directors. As used herein, “for cause” means either (i) conviction of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or (ii) adjudication for gross negligence or dishonest conduct in the performance of a director’s duty to this corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal. Notwithstanding anything to the contrary, this Article may be altered or eliminated only by amendment to this Article approved by two-thirds of the votes entitled to be cast by each voting group entitled to vote on such amendment.

The Board of Directors unanimously recommends that you vote FOR Proposals 5(a) and 5(b).

PROPOSAL 6:

REDUCE DIRECTOR ENTRENCHMENT

RESOLVED, Shareholders request adoption of a bylaw that would require at least 67% of the board of directors to have less than 15-years total Costco director tenure. This would include a provision that management would have the discretion to implement an orderly return to this requirement should there be a temporary deviation in meeting this requirement.

Eight out of the 14 Costco directors had greater than 15-years tenure. This included Charles Munger, John Meisenbach and Richard Libenson, who each received a whopping 23% to 32% in negative votes at our 2014 annual meeting. Plus Mr. Munger was unfortunately assigned to our audit and executive pay committees: Costco had not disclosed specific, quantifiable performance target objectives for our CEO who was reported to be given $12 million in total realized pay in 2013.

GMI Ratings, an independent investment research firm, flagged the Costco board as potentially entrenched due to the high number of long-serving directors. These concerns were aggravated by additional factors, such as 3-year terms for directors, the lack of an independent chairman, which together with the high number of long-tenured directors raised concerns about whether the Costco board was able to provide an effective counterbalance to management. Costco also had 3 inside directors further compounded by 3 inside-related directors.

GMI also said multiple related party transactions and other potential conflicts of interest involving the company’s board or senior managers should be reviewed in greater depth, as such practices raise concerns regarding potential self-dealing or abuse.

In 2014 the Society of Corporate Secretaries said excessive director tenure will now impact a company’s rating by a proxy advisory firm.

In 2014 Costco shareholders approved a shareholder proposal by about a 2-to-one ratio to establish a more democratic method to determine changes in certain corporate governance issues -to replace certain 67% voting thresholds with 51% thresholds. It is believed that most of the support for this Reduce Director Entrenchment proposal will be from shareholders who voted for the 2014 shareholder proposal.

An added incentive to vote for this proposal is Costco’s clearly improvable corporate performance. These issues were part of a 2014 report:

Costco paid $8 million to settle a nationwide lawsuit by 700 female employees who accused Costco of discriminating against women in promotions to management jobs.

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Costco was ordered to pay £61,000 for food safety breaches after a “severe” mice infestation was found at a store. Regulators announced that Costco would pay $3.6 million in fines in a settlement over improper storage, handling and disposal of hazardous waste and pharmaceutical waste in many stores. A news release said Costco violated California safe storage laws over five years at numerous Costco stores and distribution facilities.

Upscale fashion accessories maker Michael Kors sued Costco, accusing Costco of running a “bait-and-switch” false advertising scheme.

Returning to the core topic of this proposal from the context of our clearly improvable corporate performance, please vote to protect shareholder value:

Reduce Director Entrenchment - Proposal 6

BOARD OF DIRECTORS’ RESPONSE

Your Board of Directors believes that imposing mandatory limits on director tenure is not in the best interests of our shareholders because it would arbitrarily deprive Costco of qualified, experienced and effective directors.

EXPERIENCED DIRECTORS SUPPORT COSTCO’S LONG-TERM APPROACH TO CREATING SHAREHOLDER VALUE

Costco takes a long-term approach to generate shareholder value. The current Board, including those with tenure exceeding fifteen years, has overseen consistent long-term growth in the financial and operating performance of the Company and returns to shareholders.

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Source: Thomson Reuters. Market data as of November 7, 2014.

Note: Total return includes reinvestment of dividends.

(1) Key Comps group includes Kroger, Target and Walmart.

(2) Large Cap Retailers group includes Best Buy, Kohl's, Lowe's, Safeway, Staples and Walgreens.

Long-serving outside directors have added important experience and organizational memory. The Board believes that this knowledge and perspective are particularly important for the Company’s uniquely long-term

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horizon in dealing with its customers, employees, and suppliers. Employees working in the Company's membership warehouses receive pay and benefits more generous than their counterparts at competitors. This long-term investment in its workforce has benefited the Company with greater loyalty, and the Company consequently benefits through what it believes to be the lowest employee turnover rates and the lowest inventory loss rate in the industry. Through its investments in lower pricing - bringing merchandise to market with the lowest cost, through expense control and minimal mark-ups - the Company has developed what it believes to be a very strong reputation among its members for "pricing authority" -- offering the most competitive prices. That strategy has resulted in long-term customer loyalty, with over 86% of members renewing their memberships and strong growth in member warehouse visits in recent years.

THE BOARD PROCESSES ADEQUATELY CONSIDER TENURE

The Board appreciates that an increasing number of shareholders view tenure of directors, individually and as a group, as a relevant consideration in director elections. The Nominating and Governance Committee, which is composed exclusively of independent directors with an average tenure of less than fifteen years, oversees an evaluation process for the Board of Directors and its committees. That evaluation process includes consideration of tenure. The Committee also reviews tenure as one factor in determining whether Board members should be nominated for re-election. The average tenure for all independent directors is less than 15 years. Two of the longest-tenured Board members (over thirty years) are the Company's founders, Jeffrey Brotman and James Sinegal, both of whom the Board believes currently make invaluable contributions to the Board.

Tenure is also a consideration in the ongoing Nominating Committee and Board process concerning director succession. The Board and the Committee have been actively engaged since the last annual meeting in a search for director candidates. The objectives in the refreshment process include, among other things, seeking to ensure that the skill mix of the directors matches the evolving nature of the Company's business, reducing over time the number of directors who are not "independent" under regulatory and listing requirements, enhancing diversity, and bringing individuals who add new perspectives. The objective at this time is to bring on new members without increasing the size of the Board. Thus far, the process has not yielded nominations, but the Board expects such nominations to occur prior to the annual meeting in 2016.

The proponents cite no evidence that the Company's performance has been hampered by director tenure, that arbitrary limits on tenure would lead to improved results, or that existing processes cannot be relied upon to ensure a proper composition of the Board going forward. The Board further understands that only a tiny minority of public companies in the United States has mandatory term limits.

The Board believes that this proposal's arbitrary limitation on director tenure is unnecessary and counterproductive to the Board's ability to nominate for shareholder approval the best candidates to lead the Company. The Board, therefore, recommends a vote AGAINST Proposal 6.

The Company will provide the name and address of the proponent of each shareholder proposal and the number of shares the proponent holds upon oral or written request for such information. Requests may be sent to the Corporate Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027 or submitted by calling (425) 427-7766.

OTHER MATTERS

Neither the Board nor management intends to bring before the meeting any business other than the matters referred to in the Notice of Meeting and this Proxy Statement. If any other business should properly come before the meeting, or any adjournment thereof, the persons named in the proxy will vote on such matters according to their judgment.

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SHAREHOLDER PROPOSALS FOR THE 2016 ANNUAL MEETING

In order for a shareholder proposal to be included in the proxy statement for the 2016 annual meeting of shareholders, it must comply with SEC Rule 14a-8 and be received by the Company no later than August 18, 2015. Proposals may be mailed to the Company, to the attention of the Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027. A shareholder who intends to present a proposal at the Company's annual meeting in 2016, other than pursuant to Rule 14a-8, must comply with the requirements as set forth in our Bylaws, provide the Company notice of such intention by at least October 31, 2015, and such proposal must be a proper matter for shareholder action under Washington corporate law, or management of the Company will have discretionary voting authority at the 2016 annual meeting with respect to any such proposal without discussion of the matter in the Company's proxy statement.

ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-K

The fiscal 2014 Annual Report to Shareholders (which is not a part of our proxy soliciting materials), is being mailed with this Proxy Statement to those shareholders that received a copy of the proxy materials in the mail. For those shareholders that received the Notice of Internet Availability of Proxy Materials, this Proxy Statement and our fiscal 2014 Annual Report to Shareholders are available at www.costco.com, through the Investor Relations page. Additionally, and in accordance with SEC rules, you may access our Proxy Statement at www.proxyvote.com, a "cookie-free" website that does not identify visitors to the site. A copy of the Company's Annual Report on Form 10-K filed with the SEC will be provided to shareholders without charge upon written request directed to Investor Relations. The Company makes available on or through our website free of charge our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after filing.

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GENERAL INFORMATION

List of Shareholders of Record. A list of shareholders of record entitled to vote at the Annual Meeting will be available at the Annual Meeting and for ten business days prior to the Annual Meeting between the hours of 9:00 a.m. and 4:00 p.m., Pacific time, at the office of the Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027. A shareholder may examine the list for any legally valid purpose related to the Annual Meeting.

The Company is incorporated under Washington law, which specifically permits electronically transmitted proxies, provided that the transmission set forth or be submitted with information from which it can reasonably be determined that the transmission was authorized by the shareholder. The electronic voting procedures provided for the Annual Meeting are designed to authenticate each shareholder by use of a control number to allow shareholders to vote their shares and to confirm that their instructions have been properly recorded.

As permitted by SEC rules, the Company will deliver only one Annual Report or Proxy Statement to multiple shareholders sharing the same address, unless the Company has received contrary instructions from one or more of the shareholders. The Company will, upon written or oral request, deliver a separate copy of the Annual Report or Proxy Statement to a shareholder at a shared address to which a single copy of the Annual Report or Proxy Statement was delivered and will include instructions as to how the shareholder can notify the Company that the shareholder wishes to receive a separate copy of the Annual Report or Proxy Statement in the future. Registered shareholders wishing to receive a separate Annual Report or Proxy Statement in the future or registered shareholders sharing an address wishing to receive a single copy of the Annual Report or Proxy Statement in the future may contact the Company’s Transfer Agent: Computershare, Inc., 250 Royall St., Canton, MA 02021; (800) 249-8982.

By order of the Board of Directors,
John Sullivan
Secretary

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SEVENTH RESTATED 2002 INCENTIVE PLAN
OF
COSTCO WHOLESALE CORPORATION

1. Purpose of this Plan

The purpose of this Seventh Restated 2002 Incentive Plan of Costco Wholesale Corporation is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Options and Stock Units and to provide additional incentives through the granting of Cash-Based Awards. This Plan, which became effective on January 30, 2002 and has been amended and restated from time to time, is hereby amended, restated and renamed the Seventh Restated 2002 Incentive Plan of Costco Wholesale Corporation effective on January 30, 2015.

2. Definitions and Rules of Interpretation

2.1 Definitions. This Plan uses the following defined terms:

(a)"Administrator" means the Board, the Committee, or any officer or employee of the Company to whom the Board or the Committee delegates authority to administer this Plan.

(b)"Affiliate" means, in the case of Incentive Stock Options, a "parent" or "subsidiary" (as each is defined in Section 424 of the Code) of the Company and in the case of Awards other than Incentive Stock Options, all persons with whom the Company would be considered a single employer under Section 414(b) or Section 414(c) of the Code, except that, for purposes of determining whether there is a controlled group or common control, the language "at least 50 percent" is used instead of "at least 80 percent."

(c)"Applicable Law" means the legal requirements relating to the administration of equity compensation plans, including under applicable U.S. state corporate laws, U.S. federal and applicable state securities laws, other U.S. federal and state laws, the Code, any stock exchange rules or regulations and the applicable laws, rules and regulations of any other country or jurisdiction where Awards are granted under this Plan, as such laws, rules, regulations and requirements shall be in place from time to time.

(d)"Award" means a grant of an Option, an award of a Stock Unit or a grant of a Cash-Based Award in accordance with the terms of this Plan.

(e)"Award Agreement" means a written agreement between the Company and a holder of an Award evidencing the terms and conditions of an individual Award. Each Award Agreement shall be subject to the terms and conditions of this Plan.

(f)"Award Shares" means Shares issuable under an Award.

(g)"Board" means the board of directors of the Company.

(h)"Cash-Based Award" means an Award denominated in a dollar amount granted under Section 10.

(i)"Change of Control" is defined in Section 12.4.

(j)"Code" means the Internal Revenue Code of 1986.

(k)"Committee" means a committee composed of Company Directors appointed in accordance with the Company's Articles of Incorporation and Bylaws and Section 4.

(l)"Company" means Costco Wholesale Corporation, a Washington corporation.

(m)“Company Director” means a member of the Board.

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(n)"Consultant" means an individual who, or an employee of any entity that, provides bona fide services to the Company or an Affiliate not in connection with the offer or sale of securities in a capital-raising transaction, but who is not an Employee.

(o)"Continuous Service" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated by a Termination as defined in Section 2.1(ss).

(p)"Covered Employee" has the meaning as determined for purposes of Section 162(m) of the Code.

(q)"Disability" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(r) "Director" means a member of the board of directors of the Company or an Affiliate.

(s)"Divestiture" means any transaction or event that the Board specifies as a Divestiture under Section 12.5.

(t)"Employee" means a regular employee of the Company or an Affiliate, including an officer or Director, who is treated as an employee in the personnel records of the Company or an Affiliate, but not individuals who are classified by the Company or an Affiliate as: (i) leased from or otherwise employed by a third party, (ii) independent contractors, or (iii) intermittent or temporary workers. The Company's or an Affiliate's classification of an individual as an "Employee" (or as not an "Employee") for purposes of this Plan shall not be altered retroactively even if that classification is changed retroactively for another purpose as a result of an audit, litigation or otherwise. A Participant shall not cease to be an Employee due to transfers between locations of the Company, or between the Company and an Affiliate, or to any successor to the Company or an Affiliate that assumes the Participant's Award under Section 12, unless such event results in a Termination as defined in Section 2.1(ss). Neither service as a Director nor receipt of a director's fee shall be sufficient to make a Director an "Employee."

(u)"Exchange Act" means the Securities Exchange Act of 1934.

(v)"Executive" means an individual who is subject to Section 16 of the Exchange Act or who is a "Covered Employee," in either case because of the individual's relationship with the Company or an Affiliate.

(w)"Expiration Date" means, with respect to an Option, the date stated in the Award Agreement as the expiration date of the Option or, if no such date is stated in the Award Agreement, then the last day of the maximum exercise period for the Option, disregarding the effect of a Participant's Termination or any other event that would shorten that period.

(x)"Fair Market Value" means the value of Shares as determined under Section 18.2.

(y)"Fundamental Transaction" means any transaction or event described in Section 12.3.

(z)"Grant Date" means the date the Administrator approves the grant of an Award. However, if the Administrator specifies that an Award's Grant Date is a future date or the date on which a condition is satisfied, the Grant Date for such Award is that future date or the date that the condition is satisfied.

(aa) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option under Section 422 of the Code and designated as an Incentive Stock Option in the Option Agreement for that Option.

(bb) "Nonstatutory Option" means any Option other than an Incentive Stock Option.

(cc) "Non-Employee Director" means a Director of the Company who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly)

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from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), and does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(dd) "Objectively Determinable Performance Condition" shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit, Affiliate or business segment, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee in the Award: (i) cash flow; (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average shareowners' equity; (vii) total shareowner return; (viii) return on capital; (ix) return on assets or net assets; (x) return on investment; (xi) revenue; (xii) income or net income; (xiii) operating income or net operating income; (xiv) operating profit or net operating profit; (xv) operating margin; (xvi) return on operating revenue; (xvii) market share; (xviii) sales or revenue growth; (xix) overhead or other expense reduction; (xx) growth in shareowner value relative to the moving average of the S&P 500 Index or a peer group index; (xxi) credit rating; (xxii) strategic plan development and implementation; (xxiii) improvement in workforce diversity, and (xxiv) any other similar criteria. The Committee may provide that any evaluation of performance under an Objectively Determinable Performance Condition will exclude any of the following events that occurs during a performance period: (A) asset write-downs; (B) litigation or claim judgments or settlements; (C) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (D) accruals for reorganization and restructuring programs; and (E) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareowners for the applicable year. To the extent such exclusions affect Awards that are intended to constitute Performance-Based Compensation, the exclusions shall be prescribed in a form that satisfies the requirements for Performance-Based Compensation. In addition, in the event of any stock split, reverse stock split, recapitalization, combination or reclassification of stock, stock dividend, spin-off, extraordinary cash dividend or similar change to the capital structure of the Company that impacts a performance condition appropriate and equitable adjustments to the condition shall be made.

(ee) "Option" means a right to purchase Shares of the Company granted under this Plan.

(ff) "Option Agreement" means the document evidencing the grant of an Option.

(gg) "Option Price" means the price payable under an Option for Shares, not including any amount payable in respect of withholding or other taxes.

(hh) "Outside Director" means a Company Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(ii) "Participant" means a person to whom an Award is granted pursuant to this Plan or, if applicable, such other person who holds an outstanding Award.

(jj) “Performance-Based Compensation” means “qualified performance-based compensation” within the meaning of Section 162(m) of the Code and the Treasury Regulations promulgated thereunder.

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(kk) “Plan” means this 2002 Stock Incentive Plan of Costco Wholesale Corporation, as amended and restated from time to time.

(ll) “Qualified Domestic Relations Order” means a judgment, order, or decree meeting the requirements of Section 414(p)(1)(A) of the Code.

(mm) “Rule 16b-3” means Rule 16b-3 adopted under Section 16(b) of the Exchange Act.

(nn) “Securities Act” means the Securities Act of 1933.

(oo) “Share” means a share of the common stock $.005 par value per share, of the Company or other securities substituted for the common stock under Section 12.

(pp) “Stock Award” means any right involving Shares granted under this Plan, including an Option or Stock Unit.

(qq) “Stock Unit” means an award giving the right to receive Shares granted under Section 9 below.

(rr) “Substitute Award” means an Award granted in substitution for, or upon the conversion of, an option granted by another entity to purchase equity securities in the granting entity.

(ss) “Termination” means “termination of employment” or “separation from service” as defined in Section 409A of the Code. However, with respect to an Employee, Termination will occur at the date reasonably anticipated by the Company and Employee that a Participant’s level of service will permanently decrease to 21% or less of the average level of service provided by the Participant over the immediately preceding 36 months period (or if providing services for less than 36 months, such lesser period). If a Participant’s status changes from an Employee to an independent contractor or from an independent contractor to an Employee, whether there has been a Termination will be determined in accordance with the regulations under Section 409A of the Code.

2.2 Rules of Interpretation. Any reference to a “Section,” without more, is to a Section of this Plan. Captions and titles are used for convenience in this Plan and shall not, by themselves, determine the meaning of this Plan. Except when otherwise indicated by the context, the singular includes the plural and vice versa. Any reference to a statute is also a reference to the applicable rules and regulations adopted under that statute. Any reference to a statute, rule or regulation, or to a section of a statute, rule or regulation, is a reference to that statute, rule, regulation, or section as amended from time to time, both before and after the effective date of this Plan and including any successor provisions.

3. Shares Subject to this Plan; Term of this Plan

3.1 Number of Shares. Subject to adjustment under Section 12, the maximum number of Shares that may be granted as Awards under this Plan is 23.5 million plus any Shares previously authorized for grant under this Plan or its predecessors that have not been granted as of the date of this amendment and restatement plus any Shares covered by Awards granted under this Plan or its predecessors prior to the date of this amendment and restatement that are subsequently cancelled or expire unexercised or unvested.

3.2 Limitation on Award of Stock Units. Subject to adjustment as provided in Section 12 below, the maximum number of Shares that may be issued shall be reduced by 1.75 Shares for each Share granted in a Stock Award in which the Participant is issued Shares without tendering to the Company payment of an amount in connection therewith equal to the Fair Market Value of such Shares on the date of the Stock Award; provided however that, to the

extent that previously-issued Shares are later forfeited under the terms and conditions of the Stock Award, then any Shares so forfeited shall not count against the limit set forth in this section 3.2.

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3.3 Source of Shares. Award Shares may be authorized but unissued Shares. If an Award is terminated, expires, or otherwise becomes unexercisable without having been exercised in full, the unpurchased Shares that were subject to the Award shall revert to this Plan and shall again be available for future issuance under this Plan. The following Shares shall not again be made available for issuance as Awards under this Plan: (i) Shares actually issued under this Plan in a Stock Option even if repurchased by the Company; (ii) Shares not issued or delivered as a result of the net settlement of an outstanding Option, or (iii) Shares used to pay the exercise price or withholding taxes related to an outstanding Award.

3.4 Term of this Plan

(a)This Plan and any amendment shall be effective on the date it has been adopted by the Board or, to the extent that shareholder approval is required, on the date it has been approved by the shareholders.

(b)Subject to Section 15, this Plan shall continue in effect for a period of ten years from the earlier of the date on which this Plan was adopted by the Board and the date on which this Plan was most recently approved by the Company's shareholders.

4. Administration

4.1 General

(a)The Board shall have ultimate responsibility for administering this Plan. The Board may delegate certain of its responsibilities to a Committee, which shall consist of at least two members of the Board and solely of Outside Directors. The Board or the Committee may further delegate its responsibilities to any Employee of the Company or any Affiliate. Where this Plan specifies that an action is to be taken or a determination made by the Committee, only the Committee may take that action or make that determination. Where this Plan references the "Administrator," the action may be taken or determination made by the Board, the Committee, or other Administrator. Where this Plan references the Board, the action may be taken or determination made by the Board or the Committee. However, only the Board may approve any amendment to this Plan for which shareholder approval is necessary or desirable to comply with any Applicable Law, only the Board or the Committee may approve Awards to Executives, and an Administrator other than the Board or the Committee may grant Options and Stock Units only within guidelines established by the Board or Committee. Moreover, all actions and determinations by any Administrator are subject to the provisions of this Plan.

(b)So long as the Company has registered an outstanding a class of equity securities under Section 12 of the Exchange Act, the Committee shall consist of Company Directors who are "Non-Employee Directors" and who are "Outside Directors."

4.2 Authority of Administrator. Subject to the other provisions of this Plan, the Administrator shall have the authority, in a manner that complies with Section 409A of the Code:

(a) to make and determine the types of Awards, provided that no Non-Employee Director may be granted Awards for more than 12,000 Shares in any fiscal year (subject to adjustment under Section 12);

(b) to determine the Fair Market Value of Shares;

(c)to determine the Option Price;

(d)to determine Objectively Determinable Performance Conditions;

(e)to select the Participants;

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(f)to determine the times that Awards are granted;

(g)to determine the number of Shares subject to each Award;

(h)to determine the types of payment that may be used to acquire Award Shares and the types of payment that may be used to satisfy withholding tax obligations;

(i)to determine the other terms of each Award, including but not limited to the time or times at which Options may be exercised, whether and under what conditions an Award is assignable, and whether an Option is a Nonstatutory Option or an Incentive Stock Option;

(j)to modify or amend any Award, including, without limitation, to extend the period during which an Option may be exercised, but neither the Administrator, the Board, nor the Committee shall have the authority to reduce the Option Price of any outstanding Option without obtaining the approval of the Company's shareholders or to make a modification or amendment under this Section 4.2(j) that results in an Award that was exempt from Section 409A of the Code becoming subject to Section 409A and noncompliant with Section 409A or an Award that is subject to Section 409A of the Code becoming noncompliant with Section 409A;

(k)to authorize any person to sign any Award Agreement or other document related to this Plan on behalf of the Company;

(l)to determine the form of any Award Agreement or other document related to this Plan, and whether that document, including signatures, may be in electronic form;

(m)to interpret this Plan and any Award Agreement or document related to this Plan;

(n)to correct any defect, remedy any omission, or reconcile any inconsistency in this Plan, any Award Agreement or any other document related to this Plan;

(o)to adopt, amend, and revoke rules and regulations under this Plan, including rules and regulations relating to sub-plans and Plan addenda;

(p) to adopt, amend, and revoke rules and procedures relating to the operation and administration of this Plan to accommodate non-U.S. Participants and the requirements of Applicable Law such as: (i) rules and procedures regarding the conversion of local currency, withholding procedures and the handling of stock certificates to comply with local practice and requirements, and (ii) sub-plans and Plan addenda for non-U.S. Participants; and

(q)to make all other determinations the Administrator deems necessary or advisable for the administration of this Plan.

4.3 Scope of Discretion. Subject to the last sentence of this Section 4.3, on all matters for which this Plan confers the authority, right or power on the Board, the Committee, or other Administrator to make decisions, that body may make those decisions in its sole and absolute discretion. Moreover, but again subject to the last sentence of this Section 4.3, in making those decisions the Board, Committee or other Administrator need not treat all persons eligible to receive Awards, all Participants, all Awards or all Award Shares the same way. However, the discretion of the Board, Committee or other Administrator is subject to the specific provisions and specific limitations of this Plan, as well as all rights conferred on specific Participants by Award Agreements and other agreements.

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5. Persons Eligible to Receive Awards

5.1 Eligible Individuals. Awards may be granted to, and only to, Employees, Directors and Consultants, including to prospective Employees, Directors and Consultants conditioned on the beginning of their service for the Company or an Affiliate.

5.2 Section 162(m) Limitation.

(a)So long as the Company is a "publicly held corporation" within the meaning of Section 162(m) of the Code: (i) the maximum number of each type of Stock Award intended to constitute Performance-Based Compensation granted to any Employee or prospective Employee within any fiscal year of the Company shall not exceed 500,000 Shares for each type of award, subject to adjustment under Section 12, (ii) the maximum amount of Cash-Based Awards intended to constitute Performance-Based Compensation granted to any Employee or prospective Employee within any fiscal year of the Company shall not exceed $3 million, and (iii) Awards may be granted to an Executive only by the Committee (and, notwithstanding Section 4.1(a), not by the Board).

(b)Notwithstanding any other provision of this Plan to the contrary, the Committee shall have the discretion to determine whether an Award will be structured in a manner intended to qualify as Performance-Based Compensation. Any Stock Unit or Cash-Based Award that is intended qualify as Performance-Based Compensation must vest or become exercisable contingent on the achievement of one or more Objectively Determinable Performance Conditions. Prior to the payment of any compensation under an Award intended to qualify as Performance-Based Compensation, the Committee shall certify the extent to which any Objectively Determinable Performance Conditions and any other material terms under such Award have been satisfied (other than in cases where such relate solely to the increase in the value of the Common Stock).

(c)Notwithstanding satisfaction of any completion of any Objectively Determinable Performance Condition, to the extent specified at the time of grant of an Award to Covered Employees, the number or amount of Shares, Options, Cash-Based Awards or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Objectively Determinable Performance Conditions may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine; provided that such reduction is structured in a manner intended to satisfy the requirements for Performance-Based Compensation under Section 162(m) of the Code.

6. Terms and Conditions of Options

The following rules apply to all Options:

6.1 Price. No Option may have an Option Price less than 100% of the Fair Market Value of the Shares on the Grant Date.

6.2 Term. No Option shall be exercisable after its Expiration Date. No Option may have an Expiration Date that is more than ten years after its Grant Date.

6.3 Vesting.

(a)Options shall be exercisable in accordance with a schedule related to the Grant Date, the date the Participant's directorship, employment or consultancy begins, or a different date specified in the Option Agreement evidencing such Option; provided that no Option shall be exercisable until one year from the Grant Date except as provided below.

(b)For Options granted after October 10, 2003, the Administrator shall have the authority in its discretion to permit the exercise of an Option prior to the expiration of one year from the Grant Date based on the Pro

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Rata Number of Shares formula in Section 8.4(a) hereof and in an amount not to exceed 20% of the Option Shares granted on that Grant Date. In the event that the Participant, whether voluntarily or involuntarily, experiences a change to an employment status or position in the Company that is not eligible for Option grants or is eligible for a lesser number of Options, except as otherwise determined by the Administrator the Option Shares shall cease to vest at the time of such change, except that the Participant shall be entitled to a vesting of a Pro Rata Number of Shares computed in accordance with Section 8.4(a) using the next anniversary of the Grant Date following the change in status.

(c)Grants to Non-Employee Directors shall be vested and exercisable at the Grant Date.

6.4 Form of Payment.

(a) The Administrator shall determine the acceptable form and method of payment for exercising an Option.

(b) Acceptable forms of payment for all Option Shares are cash, check or wire transfer, denominated in U.S. dollars except as specified by the Administrator for non-U.S. Employees or non-U.S. sub-plans.

(c) In addition, the Administrator may permit payment to be made by any of the following methods:

(i)other Shares, or the designation of other Shares, which have a Fair Market Value on the date of surrender equal to the Option Price of the Shares as to which the Option is being exercised;

(ii)provided that a public market exists for the Shares, through a “same day sale” commitment from the Participant and a broker-dealer that is a member of the National Association of Securities Dealers (an “NASD Dealer”) under which the Participant irrevocably elects to exercise the Option and the NASD Dealer irrevocably commits to forward an amount equal to the Option Price, directly to the Company, upon receipt of the Option Shares (a “Cashless Exercise”);

(iii)any combination of the methods of payment permitted by any paragraph of this Section 6.4.

(d)The Administrator may also permit any other form or method of payment for Option Shares permitted by Applicable Law.

6.5 Nonassignability of Awards. Except as determined by the Administrator, no Award shall be assignable or otherwise transferable by the Participant except (a) by will or by the laws of descent and distribution, (b) to a grantor trust or partnership established for estate planning purposes to the extent permitted by Applicable Laws, or (c) in accordance with a Qualified Domestic Relations Order.

7. Incentive Stock Options

The following rules apply only to Incentive Stock Options and only to the extent these rules are more restrictive than the rules that would otherwise apply under this Plan. With the consent of the Participant, or where this Plan provides that an action may be taken notwithstanding any other provision of this Plan, the Administrator may deviate from the requirements of this Section, notwithstanding that any Incentive Stock Option modified by the Administrator will thereafter be treated as a Nonstatutory Option.

7.1 The Expiration Date of an Incentive Stock Option shall not be later than ten years from its Grant Date, with the result that no Incentive Stock Option may be exercised after the expiration of ten years from its Grant Date.

7.2 No Incentive Stock Option may be granted more than ten years from the date this Plan as amended and restated was approved by the Board.

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7.3 Options intended to be incentive stock options under Section 422 of the Code that are granted to any single Participant under all incentive stock option plans of the Company and its Affiliates, including Incentive Stock Options granted under this Plan, may not vest at a rate of more than $100,000 in Fair Market Value of stock (measured on the grant dates of the options) during any calendar year. For this purpose, an option vests with respect to a given share of stock the first time its holder may purchase that share, notwithstanding any right of the Company to repurchase that share. Unless the Administrator specifies otherwise in the related agreement governing the Option, this vesting limitation shall be applied by, to the extent necessary to satisfy this $100,000 rule, treating certain stock options that were intended to be incentive stock options under Section 422 of the Code as Nonstatutory Options. The stock options or portions of stock options to be reclassified as Nonstatutory Options are those with the highest Option Prices, whether granted under this Plan or any other equity compensation plan of the Company or any Affiliate that permits that treatment. This Section 7.3 shall not cause an Incentive Stock Option to vest before its original vesting date or cause an Incentive Stock Option that has already vested to cease to be vested.

7.4 In order for an Incentive Stock Option to be exercised for any form of payment other than those described in Section 6.4(b), that right must be stated in the Option Agreement relating to that Incentive Stock Option.

7.5 Any Incentive Stock Option granted to a Ten Percent Shareholder (as defined below), must have an Expiration Date that is not later than five years from its Grant Date, with the result that no such Option may be exercised after the expiration of five years from the Grant Date. A “Ten Percent Shareholder” is any person who, directly or by attribution under Section 424(d) of the Code, owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or of any Affiliate on the Grant Date.

7.6 The Option Price of an Incentive Stock Option shall never be less than the Fair Market Value of the Shares at the Grant Date. The Option Price for the Shares covered by an Incentive Stock Option granted to a Ten Percent Shareholder shall never be less than 110% of the Fair Market Value of the Shares at the Grant Date.

7.7 Incentive Stock Options may be granted only to Employees. If a Participant changes status from an Employee to a Consultant, that Participant’s Incentive Stock Options become Nonstatutory Options if not exercised within the time period described in Section 7.9.

7.8 No rights under an Incentive Stock Option may be transferred by the Participant, other than by will or the laws of descent and distribution. During the life of the Participant, an Incentive Stock Option may be exercised only by the Participant. The Company’s compliance with a Qualified Domestic Relations Order, or the exercise of an Incentive Stock Option by a guardian or conservator appointed to act for the Participant, shall not violate this Section 7.8.

7.9 An Incentive Stock Option shall be treated as a Nonstatutory Option if it remains exercisable after, but is not exercised within, the three-month period beginning with the Participant’s Termination for any reason other than the Participant’s death or Disability. In the case of Termination due to death, an Incentive Stock Option shall continue to be treated as an Incentive Stock Option if it remains exercisable after, but is not exercised within, that three-month period provided it is exercised before the Expiration Date. In the case of Termination due to Disability, an Incentive Stock Option shall be treated as a Nonstatutory Option if it remains exercisable after, but is not exercised within, one year after the Participant’s Termination.

8. Exercise of Options; Termination

8.1 In General. An Option shall be exercisable in accordance with this Plan, the Option Agreement under which it is granted, and as prescribed by the Administrator.

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8.2 Time of Exercise. Options shall be considered exercised when the Company receives: (a) written notice of exercise from the person entitled to exercise the Option, (b) full payment, or provision for payment, in a form and method approved by the Administrator, for the Shares for which the Option is being exercised, and (c) with respect to Nonstatutory Options, payment, or provision for payment, in a form approved by the Administrator, of all applicable withholding taxes due upon exercise. An Option may not be exercised for a fraction of a Share.

8.3 Issuance of Option Shares. The Company shall issue Option Shares in the name of the person properly exercising an Option. If the Participant is that person and so requests, the Option Shares shall be issued in the name of the Participant and the Participant's spouse. The Company shall endeavor to issue Option Shares promptly after an Option is exercised. However, until Option Shares are actually issued, as evidenced by the appropriate entry on the stock books of the Company or its transfer agent, no right to vote or receive dividends or other distributions, and no other rights as a shareholder, shall exist with respect to the Option Shares, even though the Participant has completed all the steps necessary to exercise the Option. No adjustment shall be made for any dividend, distribution, or other right for which the record date precedes the date the Option Shares are issued, except as provided in Section 12.

8.4 Termination.

(a)In General. Except as provided by the Administrator, including in an Award Agreement, after a Participant's Termination, except as otherwise provided in Sections 8.4(b), (c), (d) and (e), the Participant's Options shall be exercisable to purchase, or Awards shall be fully vested as to, (A) the number of Shares for which such Awards have vested on the date of that Termination plus (B) (in the event the Award only vests in annual increments and such Termination occurs after the one year anniversary of the Grant Date) the Pro Rata Number of Shares for which the Award would have become vested on the next anniversary of the Grant Date following Termination. As used in this Section 8, the "Pro Rata Number of Shares" shall be equal to (a) the additional number of Shares that would have become vested on the next anniversary of the Grant Date following Termination, multiplied by (b) a fraction, the numerator of which shall be the number of days from the anniversary of the Grant Date preceding Termination and the denominator of which shall be 365, rounded to the nearest whole Share. Except as otherwise provided by the Administrator or in the Award Agreement, such Options shall only be exercisable during the period ending 30 days after the Termination for Options granted prior to July 21, 2005 and the period ending 120 days after Termination for Options granted after July 21, 2005, but in no event after the Expiration Date. To the extent the Participant does not exercise an Option within the time specified for exercise, the Option shall automatically terminate.

(b)Leaves of Absence. Unless otherwise provided in the Award Agreement, no Option may be exercised more than 90 days after the beginning of a leave of absence, other than a personal or medical leave approved by the Administrator with employment guaranteed upon return. Unless otherwise determined by the Administrator, Options shall not continue to vest during a leave of absence, other than an approved personal or medical leave with employment guaranteed upon return.

(c)Death or Disability. In the event of the death of a Participant who at the date of death either (i) was an officer of the Company with the title of Assistant Vice President or above or (ii) had been employed by the Company for ten or more continuous years, all Awards that were granted to that Participant with vesting provisions tied to continuation of employment, but are unvested as of the date of the Participant's death shall become vested, effective as of the date of death. In the event of the death of a Participant who at the date of death is an Employee but qualifies under neither clause (i) or (ii) of the previous sentence, 50% of the Awards that were granted to that Participant but unvested on the date of the Participant's death shall become vested, effective as of the date of death. Unless otherwise provided by the Administrator, if a Participant's Termination is due to death or disability (as determined by the Administrator with respect to Nonstatutory Options and as defined by Section 22(e) of the Code with respect to Incentive Stock Options), all Options of that Participant may be exercised for one year after that Termination, but in no event after the Expiration Date. In the case of Termination of an Employee due to death, such Options shall be exercisable to

purchase the number of Shares for which the Options were vested as of the Termination Date in accordance with the first two sentences of

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this Section 8.4(c). In the case of Termination due to disability, such Options shall be exercisable to purchase (A) the number of Shares for which such Options have vested as of the Termination Date, plus (B) the Pro Rata Number of Shares (as defined in Section 8.4(a)) for which the Option would have vested on the next anniversary of the Grant Date (in the event the Option only vests in annual increments and such Termination occurs after the one year anniversary of the Grant Date). In the case of Termination due to death, an Option may be exercised as provided in Section 17. In the case of Termination due to disability, if a guardian or conservator has been appointed to act for the Participant and been granted this authority as part of that appointment, that guardian or conservator may exercise the Option on behalf of the Participant. Death or disability occurring after a Participant's Termination shall not cause the Termination to be treated as having occurred due to death or disability. To the extent an Option is not so exercised within the time specified for its exercise, the Option shall automatically terminate.

(d)Divestiture. If a Participant's Termination is due to a Divestiture, the Board may take any one or more of the actions described in Section 12.3 or 12.4.

(e)Termination for Cause. If a Participant's Termination is due to Cause (as defined below), all of the Participant's Options shall automatically terminate and cease to be exercisable at the time of Termination. "Cause" means dishonesty, fraud, misconduct, disclosure or misuse of confidential information, conviction of, or a plea of guilty or no contest to, a felony or similar offense, habitual absence from work for reasons other than illness, intentional conduct that could cause significant injury to the Company or an Affiliate, or habitual abuse of alcohol or a controlled substance, in each case as determined by the Administrator.

9. Provisions of Stock Units

Each Award Agreement reflecting the issuance of a Stock Unit shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of such agreements may change from time to time, and the terms and conditions of separate agreements need not be identical, but each such agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(a) Consideration. A Stock Unit may be awarded in consideration for such property or services as is permitted under Applicable Law, including for past services actually rendered to the Company or an Affiliate for its benefit.

(b) Vesting; Restrictions. Shares of Common Stock awarded under the agreement reflecting a Stock Unit award may, but need not, be subject to a Share repurchase option, forfeiture restriction or other conditions in favor of the Company in accordance with a vesting or lapse schedule to be determined by the Board. The Administrator may make provisions for accelerated vesting, including (without limitation) accelerated vesting based on length of service.

(c) Accelerated Vesting; Non-Executive Directors. Grants to non-executive directors of Stock Units shall vest upon Termination as follows:

(i)after five years of service, at Termination 50% of otherwise unvested Stock Units shall vest; and

(ii)after ten years of service, at Termination 100% of otherwise unvested Stock Units shall vest.

(d) Termination of Participant's Continuous Service. In the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the Shares of Common Stock held by the Participant which have not vested or which are otherwise subject to forfeiture or other conditions as of the date of termination under the terms of the Award Agreement.

(e) Transferability. Rights to acquire Shares of Common Stock under an Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the agreement remains subject to the terms of the

agreement.

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(f) Payment Terms. Each Award Agreement reflecting the issuance of a Stock Unit shall specify, on the Grant Date, that issuance of Shares with respect to the Stock Unit will be made at a time and/or upon the occurrence of events that comply with Section 409A of the Code, including, without limitation, on a Change In Control event that is defined in Section 409A(a)(2)(A)(v) and shall include, where required in the case of specified employees, the six-month delay in Section 409A(a)(2)(B).

10. Cash-Based Awards

Subject to the terms of this Plan and such other terms and conditions as the Administrator deems appropriate, the Administrator may grant Cash-Based Awards to Employees under this Plan. Cash-Based Awards that are intended to qualify as Performance-Based Compensation shall be subject to the provisions of Section 5.2. Cash-Based Awards may be paid in cash, Shares or Stock Units (valued as of the date such Shares or Stock Units are paid based on the Fair Market Value on such date) as determined by the Committee.

11. Consulting or Employment Relationship.

Nothing in this Plan or in any Award Agreement, and no Award shall: (a) interfere with or limit the right of the Company or any Affiliate to terminate the employment or consultancy of any Participant at any time, whether with or without cause or reason, and with or without the payment of severance or any other compensation or payment, or (b) interfere with the application of any provision in any of the Company's or any Affiliate's charter documents or Applicable Law relating to the election, appointment, term of office, or removal of a Director.

12. Certain Transactions and Events

12.1 In General. Except as provided in this Section 12, no change in the capital structure of the Company, merger, sale or other disposition of assets or a subsidiary, change of control, issuance by the Company of shares of any class of securities convertible into shares of any class, conversion of securities, or other transaction or event shall require or be the occasion for any adjustments of the type described in this Section 12.

12.2 Changes in Capital Structure. In the event of any stock split, reverse stock split, recapitalization, combination or reclassification of stock, stock dividend, spin-off, extraordinary cash dividend or similar change to the capital structure of the Company (not including a Fundamental Transaction or Change of Control), the Board shall make appropriate and equitable adjustments to preserve the value of outstanding and future Awards, including adjustments to: (a) the number and type of Awards that may be granted under this Plan, (b) the number and type of Awards that may be granted to any individual under this Plan, (c) the purchase price of any Stock Award, and (d) the Option Price and number and class of securities issuable under each outstanding Option. Subject to the foregoing requirement, the specific form of any such adjustments shall be determined by the Board. Unless the Board specifies otherwise, any securities issuable as a result of any such adjustment shall be rounded to the next lower whole security.

12.3 Fundamental Transactions. If the Company merges with another entity in a transaction in which the Company is not the surviving entity or if, as a result of any other transaction or event, other securities are substituted for the Shares or Shares may no longer be issued (each a "Fundamental Transaction"), then, notwithstanding any other provision of this Plan, the Board shall do one or more of the following contingent on the closing or completion of the Fundamental Transaction: (a) arrange for the substitution of options or other compensatory awards of equity securities other than Shares (including, if appropriate, equity securities of an entity other than the Company) in exchange for Stock Awards, (b) accelerate the vesting and termination of outstanding Stock Awards so that Stock Awards can be exercised or become vested in full before or otherwise in connection with the closing or completion of the transaction

or event but then terminate or (c) cancel Stock

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Awards in exchange for cash payments to Participants. The Board need not adopt the same rules for each Stock Award or each Participant.

12.4 Changes of Control. In connection with a Change of Control, notwithstanding any other provision of this Plan (but subject to Section 12.8), the Board may take any one or more of the actions described in Section 12.3. In addition, the Board may extend the date for the exercise of Options (but not beyond their original Expiration Date). The Board need not adopt the same rules for each Award or each Participant. "Change of Control" shall mean the occurrence of any of the following events: (i) at any time during any two consecutive year period, at least a majority of the Board shall cease to consist of "Continuing Directors" (meaning directors of the Company who were directors at the beginning of such two-year period, or who subsequently became directors and whose election, or nomination for election by the Company's shareholders, was approved by a majority of the then Continuing Directors); or (ii) any "person" or "group" (as determined for purposes of Section 13(d)(3) of the Exchange Act, except any majority-owned subsidiary of the Company or any employee benefit plan of the Company or any trust thereunder, shall have acquired "beneficial ownership" (as determined for purposes of Securities and Exchange Commission ("SEC") Regulation 13d-3) of Shares having 30% or more of the voting power of all outstanding Shares, unless such acquisition is approved by a majority of the directors of the Company in office immediately preceding such acquisition; or (iii) a merger or consolidation occurs to which the Company is a party, in which outstanding Shares are converted into shares of another company or other securities (of either the Company or another company) or cash or other property.

12.5 Divestiture. If the Company or an Affiliate sells or otherwise transfers equity securities of an Affiliate to a person or entity other than the Company or an Affiliate, or leases, exchanges or transfers all or any portion of its assets to such a person or entity, then the Board , in its sole and absolute discretion, may specify that such transaction or event constitutes a "Divestiture." In connection with a Divestiture, notwithstanding any other provision of this Plan, the Board may take one or more of the actions described in Section 12.3 or 12.4 with respect to Awards or Award Shares held by, for example, Employees, Directors or Consultants for whom that transaction or event results in a Termination. The Board need not adopt the same rules for each Award or each Participant.

12.6 Dissolution. If the Company adopts a plan of dissolution, the Board may, in its sole and absolute discretion, cause Awards to be fully vested and exercisable (but not after their Expiration Date) before the dissolution is completed but contingent on its completion and may cause the Company's repurchase rights on Award Shares to lapse upon completion of the dissolution. To the extent not exercised before the earlier of the completion of the dissolution or their Expiration Date, Options shall terminate just before the dissolution is completed. The Board need not adopt the same rules for each Award or each Participant.

12.7 Substitute Awards. The Board may cause the Company to grant Substitute Awards in connection with the acquisition by the Company or an Affiliate of equity securities of any entity (including by merger) or all or a portion of the assets of any entity. Any such substitution shall be effective when the acquisition closes. Substitute Awards that are Options may be Nonstatutory Options or Incentive Stock Options. Unless and to the extent specified otherwise by the Board, Substitute Awards shall have the same terms and conditions as the options they replace, except that (subject to Section 12) substitute options shall be Options to purchase Shares rather than equity securities of the granting entity and shall have an Option Price that, as determined by the Board in its sole and absolute discretion, properly reflects the substitution.

12.8 Compliance with Section 409A. The Board shall take no action pursuant to this Section 12 that would cause an Award that is exempt from Section 409A of the Code to become subject to Section 409A and noncompliant with Section 409A, or an Award that is subject to Section 409A to become noncompliant with Section 409A, unless the Board clearly indicates in writing its intent to take action under this Section 12 that is noncompliant with Section 409A of the Code.

12.9 Cut-Back to Preserve Benefits. If the Administrator determines that the net after-tax amount to be realized by any Participant, taking into account any accelerated vesting, termination of repurchase rights, or cash payments to that Participant in connection with any transaction or event addressed in this Section 12

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would be greater if one or more of those steps were not taken with respect to that Participant's Awards or Award Shares, then and to that extent one or more of those steps shall not be taken; provided, however, no such cutback shall be taken in connection with Awards that are subject to Section 409A.

13. Withholding and Tax Reporting

13.1 Tax Withholding Alternatives. To the extent provided by the terms of an Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Shares under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold Shares from the Shares otherwise issuable to the Participant as a result of the exercise or acquisition of stock under the Award; or (iii) delivering to the Company owned and unencumbered Shares.

13.2 Reporting of Dispositions. Any holder of Option Shares acquired under an Incentive Stock Option shall promptly notify the Administrator in writing of the sale or other disposition of any of those Option Shares if the disposition occurs during: (a) the longer of two years after the Grant Date of the Incentive Stock Option and one year after the date the Incentive Stock Option was exercised, or (b) such other period as the Administrator has established.

14. Compliance with Law

The grant of Awards and the issuance and subsequent transfer of Award Shares shall be subject to compliance with all Applicable Law, including all applicable securities laws. Options may not be exercised, and Option Shares may not be transferred, in violation of Applicable Law. Thus, for example, Options may not be exercised unless: (a) a registration statement under the Securities Act is then in effect with respect to the related Option Shares, or (b) in the opinion of legal counsel to the Company, those Option Shares may be issued in accordance with an applicable exemption from the registration requirements of the Securities Act and any other applicable securities laws. The failure or inability of the Company to obtain from any regulatory body the authority considered by the Company's legal counsel to be necessary or useful for the lawful issuance of any Award Shares or their subsequent transfer shall relieve the Company of any liability for failing to issue those Award Shares or permitting their transfer. As a condition to the exercise of any Option or the transfer of any Award Shares, the Company may require the Participant to satisfy any requirements or qualifications that may be necessary or appropriate to comply with or evidence compliance with any Applicable Law.

15. Amendment or Termination of this Plan or Outstanding Awards

15.1 Amendment and Termination. The Board may at any time amend, suspend, or terminate this Plan. On termination of this Plan, the Board may pay out benefits under this Plan in a manner that does not result in a violation of Section 409A of the Code.

15.2 Shareholder Approval. The Company shall obtain the approval of the Company's shareholders for any amendment to this Plan if shareholder approval is necessary or desirable to comply with any Applicable Law or with the requirements applicable to the grant of Options intended to be Incentive Stock Options. The Board may also, but need not, require that the Company's shareholders approve any other amendments to this Plan. Unless a greater vote is required by Applicable Law, any amendment to this Plan shall be deemed approved if such amendment receives more affirmative votes than negative votes at a shareholders' meeting at which a quorum is present.

15.3 Cancellation and Re-Grant of Options. The Company may not reprice any outstanding Stock Awards under the Plan, including implement any program whereby outstanding Stock Awards will be cancelled and replaced with

Stock Awards bearing a lower purchase or exercise price, without first obtaining the approval

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of the shareholders of the Company; provided however that this Section 15.3 shall in no way limit the Company's ability to adjust Stock Awards as provided under Section 12 above.

15.4 Effect. No amendment, suspension, or termination of this Plan, and no modification of any Award even in the absence of an amendment, suspension, or termination of this Plan, shall impair any existing contractual rights of any Participant unless the affected Participant consents to the amendment, suspension, termination, or modification. However, no such consent shall be required if the Administrator determines in its sole and absolute discretion that the amendment, suspension, termination, or modification: (a) is required or advisable in order for the Company, this Plan or the Award to satisfy Applicable Law, to meet the requirements of any accounting standard or to avoid any adverse accounting treatment, or (b) in connection with any transaction or event described in Section 12, is in the best interests of the Company or its shareholders. The Administrator may, but need not, take the tax consequences to affected Participants into consideration in acting under the preceding sentence. Termination of this Plan shall not affect the Administrator's ability to exercise the powers granted to it under this Plan with respect to Awards granted before the termination, or Award Shares issued under such Awards, even if those Award Shares are issued after the termination.

16. Reserved Rights

16.1 Nonexclusivity of this Plan. This Plan shall not limit the power of the Company or any Affiliate to adopt other incentive arrangements including, for example, the grant or issuance of stock options, stock, or other equity-based rights under other plans or independently of any plan.

16.2 Unfunded Plan. This Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants, any such accounts will be used merely as a convenience. The Company shall not be required to segregate any assets on account of this Plan, the grant of Awards, or the issuance of Award Shares. The Company and the Administrator shall not be deemed to be a trustee of stock to be awarded under this Plan. Any obligations of the Company to any Participant shall be based solely upon contracts entered into under this Plan, such as Award Agreements. No such obligation shall be deemed to be secured by any pledge or other encumbrance on any assets of the Company. Neither the Company nor the Administrator shall be required to give any security or bond for the performance of any such obligation.

17. Beneficiaries

A Participant may file a written designation of one or more beneficiaries who are to receive the Participant's rights under the Participant's Options after the Participant's death. A Participant may change such a designation at any time by written notice. If a Participant designates a beneficiary, the beneficiary may exercise the Participant's Options after the Participant's death. If a Participant dies when the Participant has no living beneficiary designated under this Plan, the Company shall allow the executor or administrator of the Participant's estate to exercise the Option or, if there is none, the person entitled to exercise the Option under the Participant's will or the laws of descent and distribution. In any case, no Option may be exercised after its Expiration Date.

18. Miscellaneous

18.1 Governing Law. This Plan and all determinations made and actions taken under this Plan shall be governed by the substantive laws, but not the choice of law rules, of the State of Washington. Participants irrevocably consent to the nonexclusive jurisdiction and venue of the state and federal courts located in the State of Washington.

18.2 Determination of Value. Fair Market Value shall be determined as follows:

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(a) Listed Stock. If the Shares are traded on any established stock exchange or quoted on a national market system, Fair Market Value shall be the closing sales price for the Shares as quoted on that stock exchange or system for the date the value is to be determined (the "Value Date") as reported in The Wall Street Journal or a similar publication. If no sales are reported as having occurred on the Value Date, Fair Market Value shall be that closing sales price for the last preceding trading day on which sales of Shares are reported as having occurred. If no sales are reported as having occurred during the five trading days before the Value Date, Fair Market Value shall be the closing bid for Shares on the Value Date. If Shares are listed on multiple exchanges or systems, Fair Market Value shall be based on sales or bids on the primary exchange or system on which Shares are traded or quoted.
(b) Stock Quoted by Securities Dealer. If Shares are regularly quoted by a recognized securities dealer but selling prices are not reported on any established stock exchange or quoted on a national market system, Fair Market Value shall be the mean between the high bid and low asked prices on the Value Date. If no prices are quoted for the Value Date, Fair Market Value shall be the mean between the high bid and low asked prices on the last preceding trading day on which any bid and asked prices were quoted.
(c) No Established Market. If Shares are not traded on any established stock exchange or quoted on a national market system and are not quoted by a recognized securities dealer, the Administrator will determine Fair Market Value in good faith and consistent with the requirements of Section 409A of the Code to the extent necessary to maintain an exemption from or compliance with Section 409A. The Administrator will consider the following factors, and any others it considers significant, in determining Fair Market Value: (i) the price at which other securities of the Company have been issued to purchasers other than Employees, Directors, or Consultants, (ii) the Company's net worth, prospective earning power, dividend-paying capacity, and non-operating assets, if any, and (iii) any other relevant factors, including the economic outlook for the Company and the Company's industry, the Company's position in that industry, the Company's goodwill and other intellectual property, and the values of securities of other businesses in the same industry.
18.3 Reservation of Shares. During the term of this Plan, the Company will at all times reserve and keep available such number of Shares as are still issuable under this Plan.

18.4 Electronic Communications. Any Award Agreement, notice of exercise of an Option, or other document required or permitted by this Plan may be delivered in writing or, to the extent determined by the Administrator, electronically. Signatures may also be electronic if permitted by the Administrator.

18.5 Escrow of Shares. To enforce any restriction applicable to Shares issued under this Plan, the Board or the Committee may require a Participant or other holder of such Shares to deposit the certificates representing such Shares, with approved stock powers or other transfer instruments endorsed in blank, with the Company or an agent of the Company until the restrictions have lapsed. Such certificates (or other notations representing the Shares) may bear a legend or legends referencing the applicable restrictions.

18.6 Notices. Unless the Administrator specifies otherwise, any notice to the Company under any Award Agreement or with respect to any Awards or Award Shares shall be in writing (or, if so authorized by Section 18.4, communicated electronically), shall be addressed to the Secretary of the Company, and shall only be effective when received by the Secretary of the Company.

18.7 Arbitration. Any dispute arising out of or relating to this Plan or any Award Agreement, including (without limitation) breach, termination or the validity thereof, shall be finally resolved by arbitration by a sole arbitrator in Seattle, Washington in accordance with the CPR Rules of Non-Administered Arbitration, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof.