UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

Or

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

Commission File Number: 001-32587

PHARMATHENE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2726770**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Park Place, Suite 450, Annapolis, MD	**21401**
(Address of principal executive offices)	(Zip Code)

(410) 269-2600
(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: The number of shares of the registrant's Common Stock, par value $0.0001 per share, outstanding as of May 4, 2011 was 46,360,091.

PHARMATHENE, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

PHARMATHENE, INC.

CONSOLIDATED BALANCE SHEETS

	Unaudited March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,708,249	$ 11,785,327
Restricted cash	100,000	100,000
Accounts receivable, net	2,050,554	5,367,130
Other receivables (including unbilled receivables)	6,811,601	4,317,170
Prepaid expenses and other current assets	713,561	1,014,002
Assets held for sale	1,028,600	1,000,100
Total current assets	20,412,565	23,583,729
Property and equipment, net	1,060,671	1,178,416
Other long-term assets and deferred costs	53,385	88,447
Goodwill	2,348,453	2,348,453
Total assets	$ 23,875,074	$ 27,199,045
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,924,494	$ 3,128,203
Accrued expenses and other liabilities	2,777,818	3,035,284
Total current liabilities	6,702,312	6,163,487
Other long-term liabilities	462,862	461,858
Derivative instruments	5,874,530	8,362,995
Total liabilities	13,039,704	14,988,340
Stockholders' equity:		
Common stock, $0.0001 par value; 100,000,000 shares authorized; 46,322,026 and 46,238,244 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	4,632	4,624
Additional paid-in-capital	201,570,845	200,847,468
Accumulated other comprehensive income	1,227,434	1,250,497
Accumulated deficit	(191,967,541)	(189,891,884)
Total stockholders' equity	10,835,370	12,210,705
Total liabilities and stockholders' equity	$ 23,875,074	$ 27,199,045

See the accompanying notes to the unaudited consolidated financial statements.

PHARMATHENE, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,	
	2011	**2010**
Revenue	$ 6,337,722	$ 3,116,553
Operating expenses:		
Research and development	5,820,374	4,952,393
General and administrative	4,939,654	5,325,422
Depreciation and amortization	117,629	245,258
Total operating expenses	10,877,657	10,523,073
Loss from operations	(4,539,935)	(7,406,520)
Other income (expense):		
Interest income	3,154	3,483
Interest expense	(15,435)	(948,150)
Other income (expense)	(11,906)	139,422
Change in market value of derivative instruments	2,488,465	267,496
Total other income (expense)	2,464,278	(537,749)
Net loss	$ (2,075,657)	$ (7,944,269)
Basic and diluted net loss per share	$ (0.04)	$ (0.28)
Weighted average shares used in calculation of basic and diluted net loss per share	46,276,874	28,172,802

See the accompanying notes to the unaudited consolidated financial statements.

PHARMATHENE, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2011	**2010**
Operating activities		
Net loss	$ (2,075,657)	$ (7,944,269)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in market value of derivative instruments	(2,488,465)	(267,496)
Depreciation and amortization	117,629	245,258
Compensatory option expense	710,625	695,029
Non cash interest expense on debt	-	895,155
Changes in operating assets and liabilities:		
Accounts receivable	3,325,087	(306,422)
Prepaid expenses and other current assets	(2,158,053)	1,093,149
Accounts payable	745,895	4,180,024
Accrued expenses and other liabilities	(264,335)	(2,972,554)
Net cash used in operating activities	(2,087,274)	(4,382,126)
Investing activities		
Purchases of property and equipment	-	(279,488)
Proceeds from sales or maturities of short term investments	-	3,130,588
Net cash provided by investing activities	-	2,851,100
Financing activities		
Change in restricted cash requirements	-	(100,000)
Net proceeds from issuance of common stock and warrants	12,760	(25,203)
Net cash provided by (used in) financing activities	12,760	(125,203)
Effects of exchange rates on cash	(2,564)	(282,219)
Decreases in cash and cash equivalents	(2,077,078)	(1,938,448)
Cash and cash equivalents, at beginning of period	11,785,327	2,673,567
Cash and cash equivalents, at end of period	$ 9,708,249	$ 735,119
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 15,435	$ 2,853
Cash paid for income taxes	$ -	$ -

See the accompanying notes to the unaudited consolidated financial statements.

Note 1 - Organization and Business

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

Historically, we have performed under government contracts and grants and raised funds from investors to sustain our operations.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements include the accounts of PharmAthene, Inc. and its wholly-owned subsidiaries PharmAthene Canada, Inc. and PharmAthene UK Limited, collectively referred to herein as "PharmAthene", "we", "us", "our" or the "Company". All significant intercompany transactions and balances have been eliminated in consolidation. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly our financial position, results of operations and cash flows. The condensed consolidated balance sheet at December 31, 2010 has been derived from audited consolidated financial statements at that date. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. These statements should be read in conjunction with the Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission. We currently operate in one business segment.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

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

Comprehensive Loss

Comprehensive loss includes the total of our net loss and all other changes in equity other than transactions with owners, including (i) changes in equity for cumulative translation adjustments resulting from the consolidation of foreign subsidiaries whose financial statements are prepared using the local currency as the functional currency and (ii) unrealized gains and losses on short term available-for-sale investments. Comprehensive loss for the three months ended March 31, 2011 and 2010 was approximately $2.1 million and $7.8 million, respectively. Comprehensive loss was not significantly different from net loss for either of these periods.

Cash and Cash Equivalents

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

Significant Customers and Accounts Receivable

Our primary customers are the U.S. Department of Defense (the "DoD"), the National Institute of Allergy and Infectious Diseases ("NIAID"), the Biomedical Advanced Research and Development Authority ("BARDA"), and the National Institutes of Health ("NIH").

As of March 31, 2011 and December 31, 2010, the Company's trade receivable balances were comprised solely of receivables from these customers. Unbilled accounts receivable totaling $6.5 million and $4.0 million as of March 31, 2011 and December 31, 2010, respectively, relate to the contracts with these same customers.

Revenue Recognition

We generate our revenue from two different types of contractual arrangements: cost-plus-fee contracts and cost reimbursable grants. Costs consist primarily of actual internal labor charges and external sub-contractor costs incurred plus an allocation of applied fringe benefits, overhead and general and administrative expenses as defined in the contract.

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

Under the milestone method of revenue recognition, milestone payments, including milestone payments for fees, contained in research and development arrangements are recognized as revenue when: (i) the milestones are achieved; (ii) no further performance obligations with respect to the milestone exist; (iii) collection is reasonably assured; and (iv) substantive effort was necessary to achieve the milestone. Milestones are considered "substantive" if all of the following conditions are met: (i) the milestone is nonrefundable; (ii) achievement of the milestone was not reasonably assured at the inception of the arrangement; (iii) substantive effort is involved to achieve the milestone; and, (iv) the amount of the milestone appears reasonable in relation to the effort expended with the other milestones in the arrangement and the related risk associated with achievement of the milestone. If a milestone is deemed not to be substantive, the Company recognizes the portion of the milestone payment as revenue that correlates to work already performed; the remaining portion of the milestone payment is deferred and recognized as revenue as the Company completes its performance obligations.

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

We analyze each cost reimbursable grant to determine whether we should report such reimbursements as revenue or as an offset to our expenses incurred. For the three months ended March 31, 2011 and 2010, we recorded approximately $0.3 million and $0.8 million, respectively, of costs reimbursed by the government as an offset to research and development expenses.

Share-Based Compensation

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

Employee share-based compensation expense recognized in the three months ended March 31, 2011 and 2010 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures at a rate of approximately 12% for 2011 and approximately 17% for 2010, based on historical forfeitures.

Share-based compensation expense for the three months ended March 31, 2011 and 2010, was:

	Three months ended March 31,	
	2011	2010
Research and development	$ 241,434	$ 183,427
General and administrative	469,191	511,602
Total share-based compensation expense	$ 710,625	$ 695,029

During the three months ended March 31, 2011, we granted 96,000 options to employees and made no restricted stock grants. At March 31, 2011, we had total unrecognized share-based compensation expense related to unvested awards of approximately $4.6 million that we expect to recognize as expense over the next three years.

Basic and Diluted Net Loss Per Share

Basic loss per share is computed by dividing consolidated net loss by the weighted average number of shares of common stock outstanding during the year, excluding unvested restricted stock.

For periods of net income when the effects are not anti-dilutive, diluted earnings per share is computed by dividing our net income allocable to common shareholders by the weighted average number of shares outstanding and the impact of all dilutive potential shares of common stock, consisting primarily of stock options and the shares of common stock underlying our convertible notes and warrants. The dilutive impact of our dilutive potential shares of common stock resulting from stock options and warrants is determined by applying the treasury stock method. The dilutive impact of our dilutive potential shares of common stock resulting from our convertible notes is determined by applying the "if converted" method.

For the periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all dilutive potential shares of common stock is anti-dilutive due to the net losses. A total of 10.5 million and 16.5 million potential dilutive shares have been excluded in the calculation of diluted net loss per share in the three months ended March 31, 2011 and 2010, respectively, because their inclusion would be anti-dilutive.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update 2009-13, "Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force," or ASU 2009-13. ASU 2009-13 amends existing accounting guidance for separating consideration in multiple-deliverable arrangements. ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third party evidence if vendor-specific evidence is not available, or the estimated selling price if neither vendor-specific evidence nor third-party evidence is available. ASU 2009-13 eliminates the residual method of allocation and requires that consideration be allocated at the inception of the arrangement to all deliverables using the "relative selling price method." The relative selling price method allocates any discount in the arrangement proportionately to each deliverable on the basis of each deliverable's selling price. ASU 2009-13 requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a stand-alone basis. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. We adopted ASU 2009-13 on January 1, 2011. The adoption of ASU 2009-13 did not have any material effect on our consolidated balance sheet as of March 31, 2011 and our consolidated statements of operations and cash flows for the three months ended March 31, 2011. We are not able to reasonably estimate the effect of adopting these standards on future periods because the impact will vary based on the nature and volume of new or materially modified revenue arrangements in any given period.

In April 2010, the FASB issued Accounting Standards Update 2010-17, "Revenue Recognition—Milestone Method (Topic 605) Milestone Method of Revenue Recognition, a consensus of the FASB Emerging Issues Task Force" or ASU 2010-17. ASU 2010-17 provides guidance 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 criteria to be considered substantive. For the milestone to be considered substantive, the considerations earned by achieving the milestone should meet all of the following criteria: (i) be commensurate with either the vendor's performance to achieve the milestone or 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, (ii) relate solely to past performance, and (iii) be reasonable relative to all deliverables and payment terms in the arrangement. An individual milestone may not be bifurcated and an arrangement may include more than one milestone. Accordingly, an arrangement may contain both substantive and non-substantive milestones. The Company adopted the provisions of ASU 2019-17 effective January 1, 2011 for milestones achieved on or after that date. We adopted ASU 2010-17 on January 1, 2011; since the Company's existing policies are consistent with those contained in ASU 2010-17, the adoption of ASU 2010-17 did not have any material effect on our consolidated balance sheets, statements of operations and statements of cash flows for any historical periods or as of or for the quarter ended March 31, 2011. We believe that the effect of adopting these standards on future periods will not be material.

Note 3 – Contemplated Exit Activities

In the fourth quarter 2010, we closed our production facility in Canada in conjunction with the completion of the Protexia® contract. In the fourth quarter of 2010, we recorded an accrual for these exit activities, of which $0.3 million remained in accrued expense at March 31, 2011.

Assets held for sale increased in value by $28,500 from December 31, 2010 due to the change in exchange rate between the Canadian and US dollar. It is anticipated that these assets will be sold within twelve months.

Note 4 - Fair Value Measurements

We define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We report assets and liabilities that are measured at fair value using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.

- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

We have segregated our financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. We have no non-financial assets and liabilities that are measured at fair value. As of March 31, 2011 and 2010 we had Level 3 derivative liabilities of approximately $5.9 million and $0.6 million, respectively.

The following table sets forth a summary of changes in the fair value of our Level 3 liabilities for the three months ended March 31, 2011:

Description	Balance as of December 31, 2010	Unrealized (Gains)	Balance as of March 31, 2011
Derivative liabilities related to warrants	$ 8,362,995	$ (2,488,465)	$ 5,874,530

The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities for the three months ended March 31, 2010:

Description	Balance at December 31, 2009	Realized (Gains)	Balance as of March 31, 2010
Derivative liabilities related to warrants	$ 835,299	$ (267,496)	$ 567,803

The gains on the derivative instruments are classified in other expenses as the change in derivative instruments in our consolidated statements of operations. The fair value of our warrants and conversion option is determined based on the Black-Scholes option pricing model. Use of the Black-Scholes option-pricing model requires the use of unobservable inputs such as the expected term, anticipated volatility and expected dividends.

Warrants Classified as Derivative Liabilities

Derivative liabilities are comprised of 2,528,568 warrants issued from March 2009 through July 2010, accounted for as a liability recorded at fair value at each balance sheet date.

Warrants Classified as Equity

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

Note 5 - Commitments and Contingencies

SIGA Litigation

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

We are seeking alternatively a judgment requiring SIGA to enter into an exclusive license agreement with the Company for ST-246 in accordance with the terms of the term sheet attached to the merger agreement or monetary damages. SIGA filed a counterclaim against the Company alleging that we breached our duty to engage in good-faith negotiations by, among other things, presenting SIGA with a bad-faith initial proposal for a license agreement that did not contain all necessary terms, demanding SIGA prepare a complete draft of a partnership agreement and then unreasonably rejecting that agreement, and unreasonably refusing to consider economic terms that differed from those set forth in the license agreement term sheet attached to the Merger Agreement. SIGA is seeking recovery of its reliance damages from this alleged breach. An accrual for a loss contingency has not been made because the related amount would be immaterial and the likelihood of SIGA's success on this counterclaim is not probable.

Discovery in the case closed in February 2010. Trial on all counts in PharmAthene's complaint commenced on January 3, 2011 and was completed on January 21, 2011. Closing arguments were held in April 2011.

Government Contracting

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

Registration Rights Agreements

We entered into a Registration Rights Agreement with the investors who participated in the July 2009 private placement of convertible notes and related warrants. We subsequently filed a registration statement to register a portion of the shares underlying the convertible notes, which registration statement was declared effective in the fourth quarter 2009. We are obligated to maintain the registration statement effective until the date when all shares underlying the convertible notes and related warrants (and any other securities issued or issuable with respect to or in exchange for such shares) have been sold. The registration rights agreement contains certain penalties if we fail to meet our obligations thereunder, which consist of a one-time payment of up to $0.2 million if sales of securities required to be included on the registration statement cannot be made pursuant to the registration statement as well as payments of up to $0.2 million per month until we meet our obligations.

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

Note 6 - Stockholders' Equity

Long-Term Incentive Plan

On August 3, 2007, the Company's stockholders approved the 2007 Long Term Incentive Plan (the "2007 Plan") which provides for the granting of incentive and non-qualified stock options, stock appreciation rights, performance units, restricted common awards and performance bonuses (collectively "awards") to Company officers and employees. Additionally, the 2007 Plan authorizes the granting of non-qualified stock options and restricted stock awards to Company directors and to independent consultants.

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This information may involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, risk associated with the reliability of the results of the studies relating to human safety and possible adverse effects resulting from the administration of the Company's product candidates, unexpected funding delays and/or reductions or elimination of U.S. government funding for one or more of the Company's development programs, the award of government contracts to our competitors, unforeseen safety issues, challenges related to the development, technology transfer, scale-up, and/or process validation of manufacturing processes for our product candidates, unexpected determinations that these product candidates prove not to be effective and/or capable of being marketed as products, challenges related to the implementation of our NYSE Amex compliance plan, as well as risks detailed from time to time in PharmAthene's Forms 10-K and 10-Q under the caption "Risk Factors" and in its other reports filed with the U.S. Securities and Exchange Commission (the "SEC"). Forward-looking statements describe management's current expectations regarding our future plans, strategies and objectives and are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend," "project," "potential" or "plan" or the negative of these words or other variations on these words or comparable terminology. Such statements include, but are not limited to, statements about potential future government contract or grant awards, potential payments under government contracts or grants, potential regulatory approvals, future product advancements, anticipated financial or operational results and expected benefits from our acquisition of Avecia Biologics Limited's biodefense vaccines business. Forward-looking statements are based on assumptions that may be incorrect, and we cannot assure you that the projections included in the forward-looking statements will come to pass.

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

The following discussion should be read in conjunction with our unaudited consolidated financial statements which present our results of operations for the three months ended March 31, 2011 and 2010 as well as our financial positions at March 31, 2011 and December 31, 2010, contained elsewhere in this Quarterly Report on Form 10-Q. The following discussion should also be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2010, filed on March 31, 2011, including the consolidated financial statements contained therein.

Overview

We are a biodefense company engaged in the development and commercialization of medical countermeasures against biological and chemical weapons. Our current lead product candidates are:

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

Recent Events

The trial related to the breach of contract action against SIGA Technologies in the Delaware Court of Chancery, concluded January 21, 2011. Post trial briefs were filed and subsequent oral argument in front of the court was held in April 2011.

We completed dosing in a U.S. Phase I clinical trial of our fully human anti-toxin monoclonal antibody, Valortim®, being developed for the prevention and treatment of inhalational anthrax. The randomized, placebo-controlled, double-blind Phase I clinical trial was designed to evaluate single escalating doses of 1, 5, or 10 mg/kg of Valortim® (or placebo) administered intravenously over a 120 minute infusion period. A total of 28 participants, all healthy male and female volunteers between the ages of 18 and 60 years, were enrolled in the study and no product related severe or serious adverse reactions were observed. We anticipate that safety follow-up will be completed in the third quarter of 2011 with final unblinded results available later in the year.

We adopted several new revenue recognition guidelines in the first quarter of 2011, including those contained in ASU 2009-13 and ASU 2010-17 related to multiple element arrangements and the milestone method of revenue recognition. The impact of adopting these new guidelines did not have a material impact on our financial results for the quarter.

Results of Operations

Revenue

We recognized revenue of $6.3 million and $3.1 million during the three months ended March 31, 2011 and 2010, respectively.

Our revenue was derived primarily from contracts with the U.S. government for the development of SparVax™ and Valortim®. Our revenue in the three months ended March 31, 2011 changed from the comparable period of 2010 primarily due to the following:

- Under our contract for the development of SparVax™, we recognized approximately $5.4 million and $2.1 million of revenue for the three months ended March 31, 2011 and 2010, respectively. The increase in revenue for the Company's SparVax™ program is attributable to additional work completed during the quarter in relation to the Company's manufacturing platform for SparVax™ and the establishment of analytical and stability-indicating assays for characterization of the product, including the receipt of $1.3 million in connection with the achievement of related milestones.

- Under the September 2007 contract for the advanced development of Valortim®, we recognized $0.8 million of revenue for each of the three months ended March 31, 2011 and 2010, respectively. Revenue in 2011 reflects both clinical and non clinical work following the release of the FDA partial clinical hold in December 2010. Final patient dosing in clinical trial was completed in April 2011. Revenue in 2010 was largely attributable to reimbursement of costs related to non-clinical studies, including work in connection with the investigation related to the partial clinical hold and certain manufacturing-related activities.

Research and Development Expenses

Our research and development expenses were $5.8 million and $5.0 million for the three months ended March 31, 2011 and 2010, respectively. These expenses resulted from research and development activities in both periods related to our Valortim® and SparVax™ programs as well as from activities related to Protexia®. Direct expenses included salaries and other costs of personnel, raw materials and supplies, and an allocation of indirect expenses. We also incurred third-party costs, such as contract research, consulting and clinical development costs for individual projects. Research and development expenses for the three months ended March 31, 2011 and 2010 were net of cost reimbursements under certain of our government grants of $0.3 million and $0.8 million, respectively.

Research and development expenses for the three months ended March 31, 2011 and 2010 were attributable to research programs as follows:

($ in millions)	Three Months ended March 31, 2011	2010
Anthrax therapeutic and vaccines	$ 4.9	4.0
Chemical nerve agent protectants	0.4	1.0
Internal research and development	0.5	0.0
Total research and development expenses	$ 5.8	$ 5.0

Research and development expenses in 2011 increased $0.8 million from the prior year period, primarily due to increased activity on our SparVax™ program and the completion of patient dosing in the Phase I Valortim® dose escalation clinical trial. This was partially offset by the decrease in development expenses related to the clinical nerve agent protectants program as a result of the December 31, 2010 Protexia® program completion.

General and Administrative Expenses

General and administrative functions include executive management, finance and administration, government affairs and regulations, corporate development, human resources, legal, and compliance. For each function, we may incur expenses such as salaries, supplies and third-party consulting and other external costs and non-cash expenditures such as expense related to stock option and restricted share awards. An allocation of indirect costs such as facilities, utilities and other administrative overhead is also included in general and administrative expenses.

Expenses associated with general and administrative functions were $4.9 million for the three months ended March 31, 2011 and $5.3 million for the three months ended March 31, 2010. The decrease was a result of a cost reduction program implemented during 2010 and a reduction in bad debt expense (with 2010 amounts including a bad debt expense established with regard to the wind-down of the third-generation anthrax vaccine program), partially offset by an increase in legal costs associated with the trial.

Depreciation and Intangible Amortization

Depreciation and amortization expenses were $0.1 million and $0.2 million for the three months ended March 31, 2011 and 2010, respectively. These expenses are lower in 2011 primarily as a result of the impairment charge taken in December 2010 with the closing of our Canadian operations.

Other Income (Expense)

Other income (expense) primarily consists of income on our investments, interest expense on our debt and other financial obligations, changes in market value of our derivative financial instruments, and foreign currency transaction gains or losses.

We incurred interest expense of approximately $15,000 and $948,000 for the three months ended March 31, 2011 and 2010, respectively. Interest expense for 2010 relates primarily to interest on our then-outstanding convertible notes, including the amortization of the debt discount arising from the allocation of fair value to the warrants issued in connection with such notes.

The change in the fair value of our derivative instruments was a decrease (gain) of $2.5 million for the three months ended March 31, 2011 compared to decrease (gain) of $0.3 million for the three months ended March 31, 2010. The fair value of these derivative instruments is estimated using the Black-Scholes option pricing model. The decrease in fair value realized as of March 31, 2011 was primarily the result of the decrease in stock price from $4.23 per share on December 31, 2010 to $3.19 per share on March 31, 2011.

Liquidity and Capital Resources

Overview

Our primary cash requirements through the end of 2011 are to fund our operations (including our research and development programs) and support our general and administrative activities. Our future capital requirements will depend on many factors, including, but not limited to, the progress of our research and development programs; the progress of pre-clinical and clinical testing; the time and cost involved in obtaining regulatory approval; the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; changes in our existing research relationships; competing technological and marketing developments; our ability to establish collaborative arrangements and to enter into licensing agreements and contractual arrangements with others; and any future change in our business strategy. These cash requirements could change materially as a result of shifts in our business and strategy.

Since our inception, we have not generated positive cash flows from operations. To bridge the gap between payments made to us under our government contracts and grants and our operating and capital needs, we have had to rely on a variety of financing sources, including the issuance of equity securities and convertible notes, proceeds from loans and other borrowings, and the trust funds obtained in the August 2007 merger. For the foreseeable future, we will continue to need these types of financing vehicles and potentially others to help fund our future operating and capital requirements. At March 31, 2011, accounts receivables, net and other receivables (including unbilled receivables) totaled approximately $8.9 million.

The turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or cease operations has resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. As a result, there can be no assurance that future funding will be available to us on reasonably acceptable terms, or at all. In addition, due to the U.S. government’s substantial efforts to stabilize the economy, the U.S. government may be forced or choose to reduce or delay spending in the biodefense field, which could decrease the likelihood of future government contract awards, the likelihood that the government will exercise its right to extend any of its existing contracts with us and/or the likelihood that the government would procure products from us.

If the court awards specific performance in our case against SIGA, which is one of a number of possible outcomes, and orders SIGA to enter into an exclusive license agreement with us for ST-246 on the terms set forth in the license agreement term sheet, we would be obligated to fulfill our obligations under that license. Depending on the timing and details of a ruling, this could include making up-front and milestone payments of between $6 million and $11 million upon an award of specific performance and potentially subsequent payments of future milestones along with royalty payments on product sales, as described in the license agreement term sheet. As a result, depending on timing and outcome, we might need to raise additional funds to satisfy these financial obligations. There can be no assurance that the Company will prevail in its lawsuit against SIGA, or that even if the court rules in the Company's favor, the court will award monetary damages or other remedies adequate to fully compensate the Company for its losses.

We have incurred cumulative net losses and expect to incur additional losses in conducting further research and development activities. We do not have commercial products and, given the substantial costs relating to the development of pharmaceutical products, have relatively limited existing capital resources. Our plans with regard to these matters include continued development of our products as well as seeking additional funds to support our research and development efforts. Although we continue to pursue these plans, there is no assurance that we will be successful in obtaining sufficient future financing on commercially reasonable terms or at all or that we will be able to secure additional funding through government contracts and grants. Our consolidated financial statements have been prepared on a basis which assumes that we will continue as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business and do not include any adjustments that might result if the carrying amount of recorded assets and liabilities are not realized.

Sources and Uses of Cash

Cash, cash equivalents and short-term available-for-sale investments were $9.8 million and $11.9 million at March 31, 2011 and December 31, 2010, respectively. The $2.1 million decrease at March 31, 2011 was primarily attributable to the net impact of cash used to fund operations and the timing of collections on our accounts receivable. In April, July and November 2010, we completed various public offerings of common stock and warrants. In November and December 2010, our outstanding 10% convertible notes were converted into shares of common stock (with one note being redeemed for cash).

As part of the wind down of activities related to the expiration of our September 2006 development contract with the DoD for Protexia®, management has reclassified certain related assets, including our production facility in Canada to "assets held for sale" with an anticipated disposal within the next twelve months.

Operating Activities

Net cash used in operating activities was $2.1 million and $4.4 million for the three months ended March 31, 2011 and 2010, respectively. Net cash used in operations during the three months ended March 31, 2011 reflects our net loss of $2.1 million, adjusted for the change in market value of derivative instruments of $2.5 million and prepaid expenses and other current assets of $2.2 million. These were partially offset by a decrease in accounts receivable of $3.3 million and an increase in accounts payable and accrued expenses and other liabilities of $0.5 million and stock-based compensation expenses. The change in market value of the derivative instruments primarily relates to the change in PharmAthene's stock price from $4.23 per share at December 31, 2010 to $3.19 per share at March 31, 2011.

Net cash used in operations during the three months ended March 31, 2010 primarily reflects the $7.9 million net loss for the period and a decrease in accrued expenses and other liabilities of $3.0 million due to reduced development activities, partially offset by a $4.2 million increase in accounts payable due to enhanced cash management activities and a $1.1 million increase in prepaid expenses and other current assets.

Investing Activities

Net cash provided by investing activities was $0.0 million for the three months ended March 31, 2011, compared to $2.9 million provided by investing activities for the three months ended March 31, 2010. Investing activities for the 2010 period related primarily to liquidating investments to meet working capital requirements.

Financing Activities

Net cash provided by financing activities was $0.0 million for the three months ended March 31, 2011 as compared to $0.1 million used in financing activities for the three months ended March 31, 2010.

Net cash used in financing activities for the three months ended March 31, 2010 consisted of the issuance of a $100,000 letter of credit in favor of American Express.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

The following are contractual commitments at March 31, 2011 primarily associated with leases and research and development arrangements:

Contractual Obligations(1)		Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Operating facility leases	$	4,990,522	607,651	1,560,528	1,619,238	1,203,105
Research and development agreements		11,577,643	11,302,534	275,109	-	-
Total contractual obligations	$	16,568,165	11,910,185	1,835,637	1,619,238	1,203,105

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, receivables and payables. We maintain our cash and cash equivalents with financial institutions with high credit ratings and at times maintain the balance of our deposits in excess of federally insured (FDIC) limits. Accounts receivable are due primarily from agencies of the U.S. Government. Accounts payable are owed to both domestic and international vendors.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We designed our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective to provide such reasonable assurance.

In designing and evaluating the disclosure controls and procedures, management recognized that such controls and procedures, as any controls and procedures, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2011, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act, that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

We are seeking alternatively a judgment requiring SIGA to enter into an exclusive license agreement with the Company for ST-246 in accordance with the terms of the term sheet attached to the merger agreement or monetary damages. SIGA filed a counterclaim against the Company alleging that we breached our duty to engage in good-faith negotiations by, among other things, presenting SIGA with a bad-faith initial proposal for a license agreement that did not contain all necessary terms, demanding SIGA prepare a complete draft of a partnership agreement and then unreasonably rejecting that agreement, and unreasonably refusing to consider economic terms that differed from those set forth in the license agreement term sheet attached to the Merger Agreement. SIGA is seeking recovery of its reliance damages from this alleged breach.

Discovery in the case closed in February 2010. Trial on all counts in PharmAthene’s complaint commenced on January 3, 2011 and was completed on January 21, 2011. Closing arguments were held in April 2011.

Item 1A. Risk Factors

Investing in our securities involves risks. In addition to the other information in this quarterly report on Form 10-Q, stockholders and potential investors should carefully consider the risks and uncertainties discussed in the section "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2010. If any of the risks and uncertainties set forth in our 2010 annual report on Form 10-K actually materialize, our business, financial condition and/or results of operations could be materially adversely affected, the trading price of our common stock could decline and a stockholder could lose all or part of his or her investment. The risks and uncertainties described in our 2010 annual report on Form 10-K are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations.

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

The table below sets forth acquisitions of our common stock by the Company and its affiliated purchasers during the quarter ended March 31, 2011.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
January 1, 2011 - January 31, 2011	8,381	$ 3.42	-	-
February 1, 2011 - February 28, 2011	-	-	-	-
March 1, 2011 - Mach 31, 2011	10,500	3.40	-	-
Total	18,881	$ 3.41	-	-

(1) Includes 18,881 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of restricted stock.

(2) Average price paid per share reflects the closing price of PharmAthene's common stock on the trading day on which the shares were surrendered by the employee stockholders to satisfy individual tax withholding obligations.

Item 6. Exhibits.

No.	Description
10.30.6	Form of Executive Restricted Stock Award Agreement++
10.30.7	Form of Executive Stock Option Agreement++
10.30.8	Form of Director Stock Option Agreement++
31.1	Certification of Principal Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
31.2	Certification of Principal Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350

++ Management or Compensatory Contract.

SIGNATURES

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

PHARMATHENE, INC.

Dated: May 11, 2011

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

Dated: May 11, 2011

By: /s/ Charles A. Reinhart III
Charles A. Reinhart III
Chief Financial Officer

EXHIBIT 10.30.6

FORM OF RESTRICTED STOCK AGREEMENT

This **RESTRICTED STOCK AGREEMENT** (the "Agreement") is made and entered into by and between Pharmathene, Inc. (the "Company"), and _____ ("Grantee"), as of this ____ day of _____ 20__, pursuant to the terms and provisions set forth herein.

WHEREAS, Grantee is employed by the Company and, as a matter of separate inducement and agreement in connection with Grantee's employment, and not in lieu of any salary or other compensation for Grantee's services, the Company desires to make an award to grantee under the Company's 2007 Long-Term Incentive Compensation Plan (the "Plan") and to enter into this Agreement with Grantee; and

WHEREAS, the Company considers it to be in its best interests to provide Grantee an inducement to acquire an ownership interest in the Company and thereby an additional incentive to advance the interests of the Company.

NOW, THEREFORE, intending to be legally bound, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

Section 1. Grant. On the effective date hereof, the Company hereby grants to Grantee _____ shares of the Company's Common Stock, $0.0001 par value (the "Restricted Stock"), at no cost to the Grantee.

The Restricted Stock is subject to the terms and provisions of the Plan, and to the following provisions of this Agreement:

Section 2. Vesting. The Restricted Stock will vest as follows: _____.

Section 3. Issuance of Shares. Upon vesting and Grantee's compliance with Section 7 hereof, the Company shall cause certificates for the Restricted Stock to be issued to Grantee (or Grantee's designee).

Section 4. Transferability. The Restricted Stock may not be transferred or encumbered in any manner prior to vesting except by will or the laws of descent and distribution. The transferee of any Restricted Stock will be subject to all restrictions, terms, and conditions applicable to the Restricted Stock, including such further agreements and restrictions as may be required as a condition of the grant or issuance of shares.

Section 5. Shareholder Rights and Restrictions. Except with regard to the disposition or encumbrance of Restricted Stock, the Grantee will generally have all rights of a shareholder with respect to the Restricted Stock from the Grant Date, including, without limitation, the right to receive dividends with respect to such Restricted Stock and the right to vote such Restricted Stock, subject to any restrictions in this Agreement.

Section 6. Dividends. All dividends payable on the Restricted Stock (whether or not vested) will be payable in cash.

Section 7. Taxes. The Grantee hereby agrees to pay to the Company any federal, state, or local taxes of any kind required by law to be withheld and remitted by the Company with respect to the Restricted Stock. The Company, in its sole discretion, may permit the Grantee may satisfy such tax obligation, in whole or in part, by (i) electing to have the Company withhold a portion of the Restricted Stock otherwise to be delivered upon vesting of the Restricted Stock with a Fair Market Value equal to the amount of such taxes, or (ii) delivering to the Company other shares of common stock of the Company with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined. If the Grantee does not make such payment to the Company, the Company shall have the right to withhold from any payment of any kind otherwise due to the Grantee from the Company, any federal, state or local taxes of any kind required by law to be withheld with respect to the award or vesting of the Restricted Stock.

Section 8. Securities Law Compliance.

(a) The Grantee agrees that the Company may impose such restrictions on the Restricted Stock as are deemed advisable by the Company, including, without limitation, restrictions relating to listing or trading requirements. The Grantee further agrees that certificates representing the Restricted Stock may bear such legends and statements as the Company shall deem appropriate or advisable to assure, among other things, compliance with applicable securities laws, rules, and regulations.

(b) The Grantee agrees that any Restricted Stock which the Grantee may acquire by virtue of this Agreement may not be transferred, sold, assigned, pledged, hypothecated or otherwise disposed of by the Grantee unless (i) a registration statement or post-effective amendment to a registration statement under the Securities Act of 1933, as amended, with respect to such Restricted Stock has become effective so as to permit the sale or other disposition of such Restricted Stock by the Grantee, or (ii) there is presented to the Company an opinion of counsel satisfactory to the Company to the effect that the sale or other proposed disposition of such Restricted Stock by the Grantee may lawfully be made otherwise than pursuant to an effective registration statement or post-effective amendment to a registration statement relating to such Restricted Stock under the Securities Act of 1933, as amended.

Section 9. Rights of the Grantee. The granting of the Restricted Stock shall in and of itself not confer any right of the Grantee to continue in the employ of the Company, any subsidiary or affiliate and shall not interfere in any way with the right of the Company, any subsidiary or affiliate to terminate the Grantee's employment at any time, subject to the terms of any employment agreement between the Company and the Grantee.

Section 10. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, except to the extent otherwise governed by federal law.

Section 11. Right to Withhold Amounts Owed to the Company. The Company shall have the right to condition the vesting of any shares of Restricted Stock on the Grantee’s payment of all amounts then due and owing to the Company or any subsidiary or affiliate.

IN WITNESS WHEREOF, the parties have subscribed their names hereto.

Attest: **PHARMATHENE, INC.**

By: _____ By: _____

Name: _____ [Name]

GRANT DATE:

ACCEPTANCE OF AGREEMENT

The Grantee hereby:

(a) Acknowledges that he has received a copy of the Company's most recent Annual Report and other communications routinely distributed to the Company's shareholders;

(b) Accepts this Agreement and the Restricted Stock granted to him under this Agreement subject to all provisions of this Agreement;

(c) Represents and warrants to the Company that she/he is acquiring the Restricted Stock for her/his own account, for investment, and not with a view to or any present intention of selling or distributing the Restricted Stock either now or at any specific or determinable future time or period or upon the occurrence or nonoccurrence of any predetermined or reasonably foreseeable event; and

(d) Agrees that no transfer of the Restricted Stock will be made unless the Restricted Stock have been duly registered under all applicable federal and state securities laws pursuant to a then effective registration which contemplates the proposed transfer or unless the Company has received the written opinion of, or satisfactory to, its legal counsel that the proposed transfer is exempt from such registration.

Grantee's Signature:

_____ Date: _____, 20__

(Print Name): _____

PHARMATHENE, INC.

2007 LONG-TERM INCENTIVE PLAN

FORM OF GRANT OF NONQUALIFIED STOCK OPTION

Date of Grant:

THIS NONQUALIFIED STOCK OPTION GRANT (this "Grant"), dated as of the above date (the "Date of Grant"), is made by PharmAthene, Inc., a Delaware corporation (the "Company") to _____ (the "Participant"), who is an employee of the Company.

WHEREAS, the Company's Board of Directors (the "Board") has adopted and the shareholders have approved the 2007 Long-Term Incentive Plan (the "Plan"); and

WHEREAS, the Plan provides for the granting of stock options by the Board, which may act through a committee of the Board (the "Committee"), to key employees of the Company to purchase shares of the common stock of the Company, $0.0001 par value per share (the "Common Stock"), in accordance with the terms and provisions thereof; and

WHEREAS, the Board considers the Participant to be a person who is eligible for a grant of stock options under the Plan, and has determined that it would be in the best interest of the Company to grant the nonqualified stock options documented herein;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option.

Subject to the terms and conditions set forth herein, the Company hereby grants to the Participant, as of the Date of Grant, an option to purchase up to _____ shares of Common Stock at an exercise price of $_____ per share. It is the intention of the Company and Participant that the Option shall be granted with an exercise price at least equal to the fair market value of the Common Stock on the Date of Grant. The exercise price of the Option shall be deemed modified as of the Date of Grant to the extent necessary for the exercise price to be at least equal to the fair market value of the Common Stock on the Date of Grant. The option granted hereunder is referred to as the "Option", and the shares of Common Stock purchasable upon exercise of the Option are sometimes referred to herein as the "Option Shares." The Option is intended by the Company to be, and shall be treated as, a "nonqualified" stock option, and not an "incentive stock option" as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Vesting of Options.

Subject to such further limitations as are provided herein or by law or by Company policy, the Option shall vest and become exercisable in the following manner: (i) 25% of the total grant outlined in paragraph 1 vests on the one year anniversary Date of Grant; (ii) from the one year anniversary Date of Grant 25% will vest on a yearly basis for a period of three years from that anniversary date, if the Participant is then employed by the Company. Such right to exercise shall be cumulative. Options which have not vested shall not be exercisable.

3. Termination of Option.

(a) The Option and all rights with respect thereto hereunder, to the extent not previously exercised, shall terminate and become null and void after the expiration of ten years from the date of Grant (the "Option Term").

(b) Upon the Participant's ceasing for any reason to be employed by the Company (such occurrence being a "termination of the Participant's employment"), the Option, to the extent not previously vested and exercised, shall terminate and thereafter become null and void [90] days after termination of the Participant's employment, except in a case where the termination of the Participant's employment is as a result of death or Disability, as such term is defined in the Plan, or is for cause, as determined by the Company. Upon a termination of the Participant's employment as a result of death or Disability, the Option may be exercised for [one year] following the date of such termination of employment, but only to the extent that the Option was vested and exercisable on such date of death or Disability. In the event of termination for cause, the Option shall be immediately canceled and shall not be exercisable. In no event, however, shall any such exercise period extend beyond the Option Term.

(c) In the event of the death of the Participant, the Option may be exercised by the Participant's legal representative, but only to the extent that the Option was vested and would otherwise have been exercisable by the Participant.

(d) A transfer of the Participant's employment between the Company and any parent or subsidiary of the Company (as such terms are defined in Section 424 of the Code), or between a parent and/or any subsidiaries of the Company, shall be deemed not to be a termination of the Participant's employment. [Except as otherwise provided by the Board, termination of employment by reason of a sale of any subsidiary or division of the Company shall not be treated as a termination of the Participant's employment for purposes of this Agreement.]

4. Exercise of Options.

(a) The Participant may exercise the Option with respect to all or any part of the number Option Shares then vested and exercisable hereunder by giving the Secretary of the Company written notice of the Participant's intent to exercise at least two business days in advance of such exercise. The notice of exercise shall specify the number of Option Shares as to which the Option is to be exercised and the date and manner of exercise thereof, unless an earlier time shall have been mutually agreed upon.

(b) Full payment by the Participant of the purchase price for the Option Shares purchased shall be made (i) in cash, on or before the exercise date specified in the notice of exercise, which may be evidenced by a cashier's or certified check or by wire transfer of immediately available funds; (ii) by delivering shares of Common Stock having a fair market value on the date of payment equal to the amount of the exercise price, but only to the extent such exercise of an Option would not result in an adverse accounting charge to the Company for financial accounting purposes with respect to the shares used to pay the exercise price unless otherwise determined by the Board; or (iii) subject to approval by the Board, by a combination of the foregoing.

(c) On the exercise date specified in the Participant's notice or as soon thereafter as is practicable, the Company shall cause to be delivered to the Participant a certificate or certificates for the Option Shares then being purchased upon full payment for such Option Shares. The obligation of the Company to deliver such certificate or certificates shall, however, be subject to the condition that if at any time the Board shall determine, in its sole discretion, that the listing, registration or qualification of the Option or the Common Stock upon any securities exchange or national market system or under any state or federal securities laws, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Option or the issuance or purchase of the Option Shares, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

(d) If the Participant fails to pay for any of the Option Shares specified in such notice or fails to accept delivery thereof, the Participant's right to purchase such Option Shares may be terminated by the Company. The date specified in the Participant's notice as the date of exercise shall be deemed to be the date of the Option exercise, provided that payment in full for the Option Shares to be purchased upon such exercise shall have been received by such date.

(e) Notwithstanding anything to the contrary contained herein, the Option is not exercisable until all of the following events occur and during the following periods of time: (i) until the Plan pursuant to which the Option is granted is approved by the stockholders of the Company in the manner prescribed by the Code and the regulations promulgated thereunder, or (ii) during any period of time in which the Company deems that the exercisability of the Option or the offer to sell or sale of any or all of the Option Shares may violate a federal, state, local or securities exchange or national market system rule, regulation or law, or may cause the Company to be legally obligated to issue or sell more shares than the Company is legally entitled to issue or sell.

5. Change of Control Event.

[In the event of a Change of Control Event, as defined in the Plan, either (i) the Option shall remain effective by its terms; or (ii) the Option shall be assumed by an employer of the Participant (or a parent or subsidiary of such employer) in connection with the Change of Control Event, or the employer (or parent or subsidiary) shall substitute a new option for the Option, provided that such assumption or substitution shall be on such terms that the excess aggregate value of the Option Shares immediately after the assumption or substitution over the aggregate price of the Option is not more than such excess immediately before the assumption or substitution; or (iii) if neither of (i) or (ii) apply (or will apply immediately following the Change of Control Event), the Option shall become fully vested and exercisable immediately preceding the Change of Control Event. If the Option is continued and remains effective, or is assumed or substituted pursuant to clauses (i) or (ii) of this Section 5, and the Participant's employment terminates within one year following the date of the Change of Control Event for any reason other than on account of cause, the Option shall become fully vested and shall remain exercisable for 90 days after such termination of employment.]

6. No Rights As Stockholders.

Neither the Participant nor any personal representative of the Participant shall be, or shall have any of the rights and privileges of, a stockholder of the Company with respect to any shares of Common Stock purchasable or issuable upon the exercise of the Option, in whole or in part, prior to the date of exercise of the Option and the issuance and sale of the Option Shares.

7. Limited Transferability of Option.

During the Participant's lifetime, the Option hereunder shall be exercisable only by the Participant or any guardian or legal representative of the Participant, and the Option shall not be transferable except by will or the laws of descent and distribution and in accordance with Section 3 hereof, or as otherwise permitted under this Section 7. The Option shall not be subject to attachment or other similar process. The Option may be transferred by the Participant to (i) the ex-spouse of the Participant pursuant to the terms of a domestic relations order, (ii) the spouse, children or grandchildren of the Participant ("Immediate Family Members"), (iii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iv) a partnership or limited liability company in which such Immediate Family Members are the only partners or members, and there may be no consideration for any such transfer. No transfer shall be effective to bind the Company unless the Company shall have been furnished with written notice of such transfer together with such other documents regarding the transfer as the Board shall request. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Option, except as provided for herein, or the levy of any attachment, execution of similar process upon the rights or interest hereby conferred, the Company may terminate the Option by notice to the Participant and it shall thereupon become null and void.

8. Employment Not Affected.

Neither the granting of the Option nor its exercise shall be construed as conferring upon the Participant any right with respect to continuance of employment with the Company. Except as may otherwise be limited by a written employment agreement between the Company and the Participant, the right of the Company to terminate the Participant's employment at any time (whether by dismissal, discharge, retirement or otherwise) is specifically reserved by the Company, and is hereby acknowledged by the Participant.

9. Amendment of Option.

The Option may be amended by the Board at any time if: (i) the Board determines, in its sole discretion, that amendment is necessary or advisable in light of any addition to or change in the Code or in the regulations promulgated thereunder, or any state or federal securities law or other law or regulation, which change occurs after the Date of Grant and its terms applies to the Option or (ii) other than in the circumstances described in (i) above, with the consent of the Participant.

10. Security Registration and Resale.

If, on the date of any exercise of the Option, the Common Stock to be purchased pursuant to such exercise has not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and under applicable state securities laws, the following provisions shall be applicable for so long as such registration has not occurred:

(a) Participant hereby agrees, warrants and represents that he will acquire the Common Stock to be issued upon exercise of the Option for his or her own account and for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any such shares, except as permitted herein. Participant further agrees that he or she will not at any time make any offer, sale, transfer, pledge or other disposition of such Common Stock to be issued upon exercise of the Option without an effective registration statement under the Securities Act and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration. Participant shall execute such instruments, representations, acknowledgments and agreements as the Company may, in its sole discretion, deem advisable to avoid any violation of federal, state, local or securities exchange or national market system rule, regulation or law.

(b) Any certificates for Common Stock issued to the Participant upon exercise of the Option shall bear the following legend:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under applicable state securities laws. The shares have been acquired for investment and may not be offered, sold, transferred, pledged or otherwise disposed of without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company that the proposed transaction will be exempt from such registration."

(c) The foregoing legend shall be removed upon registration of any such legended shares under the Securities Act and under any applicable state laws or upon receipt of an opinion of counsel acceptable to the Company that such registration is not required.

11. Stockholders' Agreement.

The issuance of this Option and any Option Shares shall be subject to any stockholders' agreement or other restrictions on sale or other disposition of the Option Shares as the Company may require. As a condition of exercise of any Option, the Participant shall join in any stockholders' agreement if not already a party thereto.

12. Notice.

Any notice required to be made to the Company hereunder shall be sent to it, by certified or registered mail or by overnight courier or by hand delivery, to: PharmAthene, Inc., One Park Place, Suite 450, Annapolis, Maryland 21401, Attn: Corporate Secretary. Any notice required to be made to the Participant hereunder shall be sent to him or her, by certified or registered mail or by overnight courier or by hand delivery, at the then current address shown on the payroll records of the Company or the Employer. Any notice shall be deemed to be duly given when sent if properly sent in accordance with this Section 12.

13. Incorporation of Plan by Reference.

The Option is granted pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and the Option shall in all respects be interpreted in accordance with the Plan. In the event of any conflict between the terms of the Grant and the terms of the Plan in effect on the date hereof, the terms of the Plan shall govern. The Board shall interpret and construe the Plan and this instrument, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder or thereunder.

14. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the law of the State of Delaware, except to the extent preempted by federal law, which shall govern to such extent.

IN WITNESS WHEREOF, the Company and Participant have executed this Nonqualified Stock Option Grant, effective as of the Date of Grant.

PHARMATHENE, INC.

By: _____

I hereby acknowledge receipt of a copy of the foregoing Nonqualified Stock Option Grant and, having read it, hereby signify my understanding of, and my agreement with, its terms and conditions.

_____

PHARMATHENE, INC.

2007 LONG-TERM INCENTIVE PLAN

FORM OF GRANT OF NONQUALIFIED STOCK OPTION

Date of Grant:

THIS NONQUALIFIED STOCK OPTION GRANT (this "Grant"), dated as of the above date (the "Date of Grant"), is made by PharmAthene, Inc., a Delaware corporation (the "Company") to _____ (the "Participant").

WHEREAS, the Company's Board of Directors (the "Board") has adopted and the stockholders have approved the PharmAthene, Inc. 2007 Long-Term Incentive Plan, as amended (the "Plan"); and

WHEREAS, the Plan provides for the granting of stock options by the Board, which may act through a committee of the Board (the "Committee"), to among others, non-employee members of the Board to purchase shares of the common stock of the Company, $0.0001 par value per share (the "Common Stock"), in accordance with the terms and provisions thereof; and

WHEREAS, the Participant is a non-employee member of the Board of Directors of the Company on the Date of Grant, who is eligible for a grant of stock options under the Plan, and the Board has determined that it would be in the best interest of the Company to grant the nonqualified stock options documented herein to the Participant;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option.

Subject to the terms and conditions set forth herein, the Company hereby grants to the Participant, as of the Date of Grant, an option to purchase up to _____ shares of Common Stock at an exercise price of $_____ per share. It is the intention of the Company and Participant that the Option shall be granted with an exercise price at least equal to the Fair Market Value (as defined in the Plan) of the Common Stock on the Date of Grant. The option granted hereunder is referred to as the "Option", and the shares of Common Stock purchasable upon exercise of the Option are sometimes referred to herein as the "Option Shares." The Option is intended by the Company to be, and shall be treated as, a "nonqualified" stock option, and not an "incentive stock option" as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Vesting of Option.

Subject to such further limitations as are provided herein or by law or by Company policy, the Option shall be fully vested and exercisable at all times after the Date of Grant and prior to the termination of the Option in accordance with Section 3.

3. Termination of Option.

(a) The Option and all rights with respect thereto hereunder, to the extent not previously exercised, shall terminate and become null and void from and after the tenth anniversary of the Date of Grant (the "Option Term").

(b) Upon termination of Participant's service as a director of the Company for any reason (subject to Section 3(c)), the Option, to the extent not previously exercised, shall terminate and thereafter become null and void three years after such termination. In no event, however, shall any such exercise period extend beyond the Option Term.

(c) In the event of termination for cause, the Option shall be immediately canceled and shall not be exercisable.

(d) In the event of the death of the Participant, the Option may be exercised by the Participant's legal representative, but only to the extent that the Option would otherwise have been exercisable by the Participant.

4. Exercise of Option.

(a) The Participant may exercise the Option with respect to all or any part of the Option Shares then exercisable hereunder at any time prior to the termination of the Option in accordance with Section 3 by giving the Secretary of the Company written notice of the Participant's intent to exercise at least two business days in advance of such exercise. The notice of exercise shall specify the number of Option Shares as to which the Option is to be exercised and the date and manner of exercise thereof, unless an earlier time shall have been mutually agreed upon.

(b) Full payment by the Participant of the purchase price for the Option Shares purchased shall be made (i) in cash or by check, bank draft or money order payable to the order of the Company; (ii) by delivering shares of Common Stock having a Fair Market Value on the date of payment equal to the amount of the exercise price, but only to the extent such exercise of an Option would not result in an adverse accounting charge to the Company for financial accounting purposes with respect to the shares used to pay the exercise price unless otherwise determined by the Board; or (iii) by a combination of the foregoing.

(c) On the exercise date specified in the Participant's notice or as soon thereafter as is practicable, the Company shall cause to be delivered to the Participant a certificate or certificates for the Option Shares then being purchased upon full payment for such Option Shares. The obligation of the Company to deliver such certificate or certificates shall, however, be subject to the condition that if at any time the Board shall determine, in its sole discretion, that the listing, registration or qualification of the Option or the Common Stock upon any securities exchange or national market system or under any state or federal securities laws, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Option or the issuance or purchase of the Option Shares, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

(d) If the Participant fails to pay for any of the Option Shares specified in such notice or fails to accept delivery thereof, the Participant's right to purchase such Option Shares may be terminated by the Company. The date specified in the Participant's notice as the date of exercise shall be deemed to be the date of the Option exercise, provided that payment in full for the Option Shares to be purchased upon such exercise shall have been received by such date.

(e) Notwithstanding anything to the contrary contained herein, the Option shall not be exercisable during any period of time in which the Company deems that the exercisability of the Option or the offer to sell or sale of any or all of the Option Shares may violate a federal, state, local or securities exchange or national market system rule, regulation or law, or may cause the Company to be legally obligated to issue or sell more shares than the Company is legally entitled to issue or sell.

5. Change of Control Event.

In the event of a Change of Control Event, as defined in the Plan, the Board shall have the discretion to determine whether and to what extent to accelerate the exercise or payment of the Option.

6. No Rights As Stockholders.

Neither the Participant nor any personal representative of the Participant shall be, or shall have any of the rights and privileges of, a stockholder of the Company with respect to any shares of Common Stock purchasable or issuable upon the exercise of the Option, in whole or in part, prior to the date of exercise of the Option and the issuance and sale of the Option Shares.

7. Limited Transferability of Option.

During the Participant's lifetime, the Option hereunder shall be exercisable only by the Participant, and the Option shall not be transferable except by will or the laws of descent and distribution as described in Section 11.3 of the Plan, or as otherwise permitted under this Section 7. The Option shall not be subject to attachment or other similar process. The Option may be transferred by the Participant to (i) the ex-spouse of the Participant pursuant to the terms of a domestic relations order, (ii) the spouse, children or grandchildren of the Participant ("Immediate Family Members"), (iii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iv) a partnership or limited liability company in which such Immediate Family Members are the only partners or members, and there may be no consideration for any such transfer. No transfer shall be effective to bind the Company unless the Company shall have been furnished with written notice of such transfer together with such other documents regarding the transfer as the Board shall request. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Option, except as provided for herein, or the levy of any attachment, execution of similar process upon the rights or interest hereby conferred, the Company may terminate the Option by notice to the Participant and it shall thereupon become null and void.

8. Service Relationship Not Affected.

Neither the granting of the Option nor its exercise shall be construed as conferring upon the Participant any right with respect to continuance of service with the Company as an employee, director, or other service provider. Except as may otherwise be limited by a written agreement between the Company and the Participant, the right of the Company to terminate the Participant's service relationship at any time (whether by dismissal, discharge, retirement or otherwise) is specifically reserved by the Company, and is hereby acknowledged by the Participant.

9. Amendment of Option.

Subject to the limitations of Article IV of the Plan, such as the prohibition on repricing of Options, the Option, whether or not presently exercisable, may be amended by the Board unilaterally at any time, to the extent the Board deems it appropriate. However, amendments which are adverse to the Participant shall require the Participant's consent.

10. Security Registration and Resale.

If, on the date of any exercise of the Option, the Common Stock to be purchased pursuant to such exercise has not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and under applicable state securities laws, the following provisions shall be applicable for so long as such registration has not occurred:

(a) Participant hereby agrees, warrants and represents that he will acquire the Common Stock to be issued upon exercise of the Option for his or her own account and for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any such shares, except as permitted herein. Participant further agrees that he or she will not at any time make any offer, sale, transfer, pledge or other disposition of such Common Stock to be issued upon exercise of the Option without an effective registration statement under the Securities Act and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration. Participant shall execute such instruments, representations, acknowledgments and agreements as the Company may, in its sole discretion, deem advisable to avoid any violation of federal, state, local or securities exchange or national market system rule, regulation or law.

(b) Any certificates for Common Stock issued to the Participant upon exercise of the Option shall bear the following legend:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under applicable state securities laws. The shares have been acquired for investment and may not be offered, sold, transferred, pledged or otherwise disposed of without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company that the proposed transaction will be exempt from such registration."

(c) The foregoing legend shall be removed upon registration of any such legended shares under the Securities Act and under any applicable state laws or upon receipt of an opinion of counsel acceptable to the Company that such registration is not required.

11. Notice.

Any notice required to be made to the Company hereunder shall be sent to it, by certified or registered mail or by overnight courier or by hand delivery, to: PharmAthene, Inc., One Park Place, Suite 450; Annapolis, MD 21401 Attn: Corporate Secretary. Any notice required to be made to the Participant hereunder shall be sent to him or her, by certified or registered mail or by overnight courier or by hand delivery, at the then current address shown on the payroll records of the Company. Any notice shall be deemed to be duly given when sent if properly sent in accordance with this Section 11.

12. Incorporation of Plan by Reference.

The Option is granted pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and the Option shall in all respects be interpreted in accordance with the Plan. In the event of any conflict between the terms of the Grant and the terms of the Plan in effect on the date hereof, the terms of the Plan shall govern. The Board shall interpret and construe the Plan and this instrument, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder or thereunder.

13. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the law of the State of Delaware, except to the extent preempted by federal law, which shall govern to such extent.

IN WITNESS WHEREOF, the Company and Participant have executed this Nonqualified Stock Option Grant, effective as of the Date of Grant.

PHARMATHENE, INC.

By: _____

I hereby acknowledge receipt of a copy of the foregoing Nonqualified Stock Option Grant and, having read it, hereby signify my understanding of, and my agreement with, its terms and conditions.

_____

Exhibit 31.1

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

I, Eric I. Richman, certify that:

1. I have reviewed this Form 10-Q of PharmAthene, Inc. for the quarter ended March 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 11, 2011

/s/ Eric I. Richman

Name: **Eric I. Richman**
Title: **Chief Executive Officer**

Exhibit 31.2

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

I, Charles A. Reinhart III, certify that:

1. I have reviewed this Form 10-Q of PharmAthene, Inc. for the quarter ended March 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 11, 2011

/s/ Charles A. Reinhart III

Name: **Charles A. Reinhart III**
Title: **Chief Financial Officer**

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of PharmAthene, Inc. (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission (the "Report"), I, Eric I. Richman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act.

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

/s/ Eric I. Richman

Eric I. Richman
Chief Executive Officer
May 11, 2011

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of PharmAthene, Inc. (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission (the "Report"), I, Charles A. Reinhart III, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act.

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

/s/ Charles A. Reinhart III

Charles A. Reinhart III
Chief Financial Officer
May 11, 2011