

NYSE Amex: PIP

Update

November 18, 2009

Rating: **Speculative Buy**
(Unchanged)

Recent Price: **\$3.50**
(11/17/09)

Price Target: **\$5.35**
(Unchanged)

PHARMATHENE, INC.

Biotechnology; Biodefense

MARKET DATA

52-Week High/Low	\$4.31 - \$0.85
Ave. Daily Volume (6-mos.)	60 K
Shares Outstanding	28.4 M
Inside Ownership	21.8%
Institutional Ownership	10%
Float	22.2 M
Short Interest (% of float)	< 1%

FINANCIAL DATA

Market Capitalization	\$ 99.4 M
- Cash & Equivalents	\$ 11.6 M
+ Long-term Debt	\$ 16.6 M
Enterprise Value	\$104.4 M
Book Value	\$ 6.5 M
Working Capital	\$15.8 M
Dividend Yield	Nil

Pro Forma balance sheet figures as of 9/30/09

	SALES	NET	CFO	PSL
2007A	\$14.6	(\$17.7)	(\$13.6)	(\$1.88)
2008A	\$32.9	(\$36.4)	(\$13.2)	(\$1.59)
1Q09A	\$ 5.5	(\$ 6.0)		(\$0.23)
2Q09A	\$ 8.0	(\$ 6.6)		(\$0.24)
3Q09A	\$ 6.8	(\$14.0)		(\$0.50)
4Q09E	\$ 7.8	(\$ 5.9)		(\$0.21)
2009E	\$28.2	(\$32.4)	(\$30.0)	(\$1.14)

Dollars in millions, except EPS; Fiscal year ends Dec.

VALUATION

Price/Sales	3.8 X
Price/CFO	Neg
Price/Trailing 12-mo. Earnings	Neg
Price/Book Value	15.3 X
Consensus EPS Estimate 2009	(\$0.81)
Forward PE	Neg
Consensus EPS Estimate 2010	(\$0.64)
Forward PE	Neg

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PharmAthene is an early stage biopharmaceutical company engaged in the development and commercialization of vaccines and therapeutics for use against toxins that are potential agents of bioterrorism. The Company's second generation anthrax vaccine, SparVax, is under consideration for the U.S. Strategic National Stockpile established in 2004. PharmAthene is headquartered in Annapolis, MD and maintains a web site presence at www.pharmathene.com.

HIGHLIGHTS

- **Contract Revenue.** Development contracts produced \$6.8 million in revenue for PharmAthene in the third quarter 2009. This was less than the \$7.5 million we had projected for the quarter, but not outside expectations as billing practices and accounting treatments frequently impact the timing of revenue recognition.
- **Non-cash Charges.** Net loss in the September quarter was \$14.0 million or \$0.50 per share. Excluding the non-cash charge for early retirement of debt and the change in fair value of derivatives, we estimate the net loss was \$8.2 million or \$0.29 per share.
- **Working Capital.** Working capital at the end of the September quarter was \$15.8 million, including \$13.7 million in other receivables due from various contracts with U.S. government agencies. We expect other receivables to reverse in magnitude in the coming periods. Accordingly, cash usage in these periods should be commensurately lower.
- **Rating and Price Target.** We reiterate our Speculative Buy rating on PIP and maintain our price target at \$5.35. We expect the stock to trade in a range for the next several weeks as investors await a decision on the Company's SparVax anthrax vaccine bid.

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SUMMARY AND OUTLOOK

“The two most powerful warriors are patience and time,” said Tolstoy. Investors might hope it takes as little of either as possible to realize investment returns. Indeed, shareholders might have been hoping for a break in the “waiting game” that is playing out on a couple of fronts. The Company’s bid to develop and supply its *SparVax* second generation anthrax vaccine to the National Strategic Stockpile is still pending before decision makers at the Department of Health and Human Resources Biomedical Advanced Research and Development Authority (DHHS, BARDA). PharmAthene’s legal action against Siga Technologies, Inc. (SIGA: Nasdaq) over a joint small pox development effort has moved through discovery, but any court date is likely to be set well into the next year. The Company is also awaiting a decision by the Department of Defense (DOD) on a \$65.0 million option to support further development of PharmAthene’s *Protexia* nerve gas antidote. BARDA halted negotiations for a funding proposal to support development of PharmAthene’s anthrax antitoxin *Valortim* after adverse reactions were recorded in a Phase I study of *Valortim* in combination with the antibiotic ciprofloxacin.

While the list of disappointments appears long, we note that in each case, it is likely that patience and time are exactly what is needed to resolve each of these valuation sensitive matters. As we note in the following sections, PharmAthene appears well positioned to prevail in each situation. PharmAthene’s report for the September 2009 quarter showed that the Company is moving along with business as usual.

We reiterate our Speculative Buy rating on PIP and maintain our price target at \$5.35. We expect the stock to trade in a range for the next several weeks as investors await a decision on the Company’s *SparVax* anthrax vaccine bid. In our view, investors should consider accumulating shares at the current depressed price level in anticipation of progress on each of the three main biodefense candidates in PharmAthene portfolio. We believe a significant announcement could propel the stock through the line of resistance that appears to have developed at the \$3.75 price level.

THIRD QUARTER 2009 RESULTS

Development contracts produced \$6.8 million in revenue for PharmAthene in the third quarter 2009. This was less than the \$7.5 million we had projected for the quarter, but not outside expectations as billing practices and accounting treatments frequently impact the timing of revenue recognition. Direct costs and operating expenses totaled \$14.4 million, well above our estimate of \$12.7 million for costs and expenses. The operating loss totaled \$7.5 million.

Exhibit I: PIP Stock Chart



Source: StockCharts.com

Below the operating line the Company recorded a \$4.7 million non-cash charge for the early pay off of the 8% notes that came due in August 2009. The Company completed a \$19.3 million debt financing in July 2009, exchanging \$8.8 million of new 10% convertible notes for an equal amount of the old notes and repaying \$5.5 million of the notes that were not exchanged. The Company also paid down a credit line by \$2.5 million. Interest expense in the quarter was \$748,892, partially offset by \$61,743 in interest earnings on cash balance and short-term investments.

The Company also recorded a \$1.1 million charge for the change in the fair value of derivatives, principally outstanding warrants. The net derivatives charge for the year-to-date is \$295,218. We expect this recurring, but largely unpredictable accounting treatment to inject considerable volatility into PharmAthene's reported net results.

Net loss in the quarter was \$14.0 million or \$0.50 per share. Excluding the non-cash charge for early retirement of debt and the change in fair value of derivatives, we estimate the net loss was \$8.2 million or \$0.29 per share. This compares to our estimate of a \$0.21 per share loss, which did not anticipate non-cash charges relating to financings. The net loss also included non-cash charges for depreciation, amortization and stock compensation totaling \$1.2 million. On a cash-adjusted basis we estimate the net loss was \$7.0 million or \$0.25 per share.

Operating Cash Usage and Balances

We estimate the Company used \$10.6 million in cash to support operations during the quarter. This brings the total cash used by operations to \$22.0 million in the first nine months of the year. PharmAthene had \$11.6 million in cash and short-term investments on the balance sheet at the end of September 2009. During the earnings conference call management indicated they believe these cash resources coupled with its existing contract portfolio would be sufficient to support the Company's strategic objectives through the end of 2010. Working capital at the end of the September quarter was \$15.8 million. Included in working capital is \$13.7 million in other receivables due from various contracts with U.S. government agencies. Differences in the timing of work completion, billing and revenue recognition drive the asset account, which increased significantly in the first half of the year from \$1.4 million at the end of 2009. We expect other receivables to reverse in magnitude in the coming periods. Accordingly, cash usage in these periods should be commensurately lower.

RECENT DEVELOPMENTS

Pending SparVax Proposal

During the third quarter earnings conference call management indicated the PharmAthene staff has weekly conference calls with BARDA, the agency which is expected to award a contract or contracts for development and procurement of a second generation anthrax vaccine to fill a targeted 75 million doses for the Strategic National Stockpile. PharmAthene submitted its fourth revised proposal to BARDA on September 4, 2009, and a so-called "kick off" meeting had been scheduled for November 4, 2009. Although there appears to be no technical issues remaining with regard to PharmAthene's bid to finished development of and supply its *SparVax* anthrax vaccine to the stockpile, management admitted there has been little information forthcoming from BARDA relating to timing of an award.

The proposed development and procurement contract is valued in a range of \$400 million to \$600 million and involves a period of final development and approval of a second generation anthrax vaccine that would be an improvement over the anthrax vaccine currently in use. BARDA has called for a vaccine that requires fewer doses over a shorter period of time. Providing development milestones have been met, orders would then follow from BARDA for a supply of 75 million or more vaccine doses. Only one other company, Emergent BioSolutions (EBS: NSYE) has announced having received notice from BARDA of being within technical range of its requirements. Emergent has been the supplier of the first generation anthrax vaccine, BioThrax, to the national stockpile and expects to continue filling orders of that vaccine until a second generation vaccine is available.

It has been widely thought that both PharmAthene and Emergent would receive contracts under the call for a second generation candidate. BARDA stubbed its “agency toe” several years ago in awarding a very large contract for a first generation vaccine to VaxGen, which ultimately failed to meet milestones. The agency has since indicated it would not “put all its eggs in one basket” with a single award. The dual award thesis is also bolstered by the view that the diversity in anthrax strains calls for multiple vaccine and treatments in order to ensure effectiveness across a spectrum of anthrax strains.

A final, favorable decision by BARDA would significantly increase PharmAthene’s revenue stream almost immediately following the contract award. The Company expects to receive upfront payments to support development work and then receive subsequent payments upon achievement of milestones. Following FDA approval the procurement phase would begin, at which time we believe the revenue levels could propel the Company to profitability.

Valortim Phase I Trial

During the earnings conference following the announcement of third quarter results, PharmAthene management described recent events relating to a Phase I trial of *Valortim*, the Company’s monoclonal antibody for the treatment of anthrax infection. Two of the participants in the study reported serious adverse reactions to the combination of *Valortim* and the antibiotic ciprofloxacin. Dosing in the study was halted pending evaluation. The Company is looking at the dosing speed, which had been accelerated to 60 minutes versus a 90-minute dosing speed in earlier studies. The addition of an antihistamine to the mix is also under consideration. Management indicated that the FDA and National Institute of Allergy and Infectious Diseases (NIAID) have begun looking at the study and are expected to provide comments in the next few weeks.

Pending resolution of the issues relating to this recent Phase I study, negotiations have been suspended with BARDA relating to a possible \$100 million award pursuant to a proposal submitted in response to a Broad Agency Announcement (BAA) issued by BARDA earlier this year. The Defense Contract Audit Agency (DCAA) is presently looking at the award. During the 3Q09 earnings conference call PharmAthene management expressed confidence a resolution could be found and that the negotiations for funding under the BAA could move forward. Existing contracts relating to *Valortim* including an \$13.9 million award from the NIAID in 2007 and a \$2.0 million award from BARDA earlier in 2009, have not been impacted by the results of the Phase I study. The Company is expected continue working on *Valortim* under those contracts.

Ciprofloxacin is a drug used to treat bacterial infections, including anthrax infection. It kills bacteria by interfering with the enzymes that cause DNA to rewind after being copied, which stops DNA and protein synthesis. Unfortunately, serious adverse events occur more commonly with fluoroquinolones, the class of antibiotics to which ciprofloxacin belongs, than with any other antibiotic drug classes. In most adverse reactions are mild to moderate however, occasionally serious adverse effects occur. There have been a number of regulatory actions taken as a result of such adverse reactions, which included published warnings, additional warnings and the requirement of safety information added to the package inserts.

A class action had been filed against the maker of ciprofloxacin, Bayer AG, on behalf of employees of the Brentwood Post Office in Washington, D.C., and workers at the U.S. Capitol, along with employees of American Media, Inc. in Florida and postal workers in general who allege that they have suffered serious adverse effects from taking the antibiotic ciprofloxacin in the aftermath of the anthrax attacks in 2001. The adverse effects cited in the lawsuit include tendon rupture, seizures, intestinal problems, tendonitis, anxiety, insomnia, muscle aches, depression, and miniscal tears.

Recent news from Human Genome Sciences (HGS: Nasdaq) relating to delays in FDA approval of its anthrax antitoxin candidate may also give some investors pause. It appears the road to approval for biodefense countermeasures is not entirely smooth, yet we believe that in PharmAthene’s case its overall track record with *Valortim* has been promising. In a previous Phase I trial, 46 human volunteers were administered either a single dose of intravenous or intramuscular *Valortim*. The drug candidate was found to be safe and well-tolerated with no drug-related or serious adverse events reported. PK analysis demonstrated a half-life of approximately 26 days for IV administration.

PharmAthene presented data on that earlier Phase I trial at the 2008 BARDA Industry Conference as well and also detailed studies conducted at USAMRIID using African Green Monkeys (AGMs). In the study, 21 adult AGMs were exposed by aerosol to the Ames anthrax spore. Blood samples were collected every 4-8 hours beginning 24-hours post exposure to assess anthrax bacteria and protective antigen in blood. Results showed that 56% (10 of 18) of the *Valortim*-treated animals survived while all saline-treated controls (3) succumbed to inhalational anthrax on or before the fifth day post-exposure. Extended time-to-death (days 6-9) was observed in 5 of the 8 *Valortim*-treated animals that succumbed to inhalational anthrax. In summary, the AGM study, which showed over 50% of *Valortim*-treated animals survived inhalational anthrax as compared to no controls.

Siga-246 Legal Dispute

In March 2006, PharmAthene entered into a strategic partnership and merger agreement with Siga Pharmaceuticals (SIGA: Nasdaq) principally to develop a small pox vaccine named SIGA-246, now called ST-246. PharmAthene carried out certain development work and invested \$3.0 million in Siga in the form of a bridge note. A definite agreement was signed in September 2006, but within a month Siga terminated the merger agreement and repaid the bridge note. PharmAthene subsequently filed a complaint against Siga demanding that Siga go forward with licensing ST-246 to PharmAthene as planned. The legal action has since been winding its way through the court processes. Siga's motion to dismiss the suit was denied and the discovery period was recently completed. The two sides are now lining up expert testimony that could be use at trial if neither side petitions for and receives a summary judgment.

The significance of the dispute was recently elevated by Siga's bid for a pending DHHS development and procurement contract for 1.7 million doses of a small pox antiviral drug. In early June 2009, Siga announced a milestone for the small pox antiviral drug candidate ST-246. The FDA has notified Siga that no further nonclinical toxicology studies will be required to support the ST-246 NDA filing.

Our field work suggests that the pending procurement contract with BARDA is not in jeopardy even though litigation is pending that brings into question Siga's ability to fulfill the provisions of a procurement contract. We do not expect a conclusion to the litigation any time soon, but as the process nears some conclusion, we believe the investors should begin to consider the impact on PharmAthene's valuation should the litigation be decided in PharmAthene's favor and the BARDA small pox RFP awarded to ST-246.

RypVax Winddown

PharmAthene announced through its September 2009 quarter filing its intention to wind down work on the *RypVax* plague vaccine candidate under a contract awarded by the NIAID in 2004. We expect the Company to keep *RypVax* on the back burner as it turns to focus on its leading countermeasure candidates *SparVax* (anthrax vaccine), *Protexia* (anthrax antitoxin) and *Valortim* (nerve gas). The markets for anthrax vaccine and antitoxin are more significant in terms of revenue potential as well as immediacy in demand.

Financing Provisions - Warrants, Share Registration

We note that the number of outstanding and exercisable warrant derivatives have changed in recent weeks. Warrants totaling 705,354 issued in the Company's March 2009 private placement of common stock became exercisable in September 2009. These warrants are exercisable at \$3.00 and are now considered in-the-money at the current price level. At the end of September 2009, the Company had 15.8 million warrants and 3.5 million options outstanding. However, in October 2009, 2.7 million warrants issued in an earlier financing expired out-of-the-money. Of the 16.6 million derivatives still outstanding, 2.6 million warrants issued in the July 2009 debt financing become exercisable in January 2010.

Also in the July 2009 debt financing, the Company committed to filing a registration statement in time for it to be declared effective by November 25, 2009. The registration statement has been filed but has not yet been declared effective. Failure to meet that deadline triggers a payment obligation equal to 1.0% of the aggregate principal amount of the \$16.6 million offering. The Company must make subsequent equivalent payment every thirty days until the registration statement is effective.

UPDATED EARNINGS MODEL

We updated our earnings model to reflect 3Q09 results. Although we made no changes to our fourth quarter 2009 estimates, we initiated a new Base Case and an Award Scenario for the year 2010 to demonstrate possible P&L impacts of a decision on the Company's bid to develop and supply *SparVax* to the Strategic National Stockpile. Our Award Scenario includes an incremental \$50 million in revenue from the development portion of the pending development and procurement contract, which is valued in total near \$400 million over a three to five year period. When the contract is let we expect an immediate advance payment and subsequent milestone payments under the development portion of the contract.

Table I: Historic and Projected Contractual Revenue Sources (dollars in millions)

Contracts by: Year/Contractor/Compound Contract Type/Total Award	2006	2007	2008	YTD 2009	Remaining Award - 1	CER Estimates 2010E
2005 Army MRCC <i>Protexia</i> Preclinical Study \$2.7 mln.	\$0.3				\$ -0-	
2006 DOD <i>Protexia</i> Phase I \$41 mln. Post Phase I \$65 mln. 90,000 Doses \$113.0 mln.	\$1.5	\$14.0	\$19.5	\$ 6.8	\$ -0- \$ 65.0 \$113.0	\$ 5.0
2006 NIH <i>Protexia</i> Development \$1.7 mln.					\$ 0.3	
2007 NIAID & BARDA <i>Valortim</i> Development \$13.9 mln.		\$ 0.1	\$ 1.4	\$ 4.2	\$ 8.3	\$ 6.0
2003 DOD <i>Valortim</i> Development \$2.7 mln.		\$ 0.6			\$ 2.1	
2003 NIH <i>SparVax</i> Development \$118 mln. - 2			\$ 9.0	\$ 7.3	\$ 17.0	\$ 5.0
2005 & 2007 NIAID 3G <i>Anthrax</i> Development \$6.9 mln.					\$ 3.0	\$ 3.0
2004 NIH <i>RypVax</i> Development \$50.7 mln.			\$ 2.9	\$ 1.5	\$ 13.5	
2008 NIAID 3G <i>Anthrax</i> Development \$13.2 mln. Options \$70.7 mln.			\$ 0.1	\$ 0.6	\$ 12.5 \$ 70.7	\$ 8.0
2008 DOD <i>Protexia</i> Development \$1.6 mln.					\$ 1.6	\$ 1.0
2009 BARDA <i>Valortim</i> Development \$2.0 mln.					\$ 2.0	\$ 2.0
Totals	\$1.7	\$14.6	\$32.9	\$20.4	\$309.0	\$30.0

1 Estimated award remaining as of September 30, 2009.

2 Responsibility shifted from NIAID to BARDA in April 2009

Sources: Company Reports and Crystal Equity Research Estimates

Revenue in 2010 could be favorably impacted by a final decision by the DOD on the next phase of work under a \$119 million contract awarded to PharmAthene in 2006 for work on *Protexia*, a treatment for exposure to nerve agents. The contract included an option for additional development work valued at \$65 million. PharmAthene completed all milestones under the initial part of the contract and expects a final decision by the end of 2009 or the beginning of 2010.

Yet another pending funding decision could also contribute to the top-line in 2010. In September 2009, PharmAthene responded to a Broad Agency Announcement (BAA) from BARDA with a proposal to continue development of its *Valortim* compound for the treatment of exposure to nerve agents. The Company had been in negotiation with BARDA on the details of the development work to be completed under a contract that could be valued as much as \$100 million. Those negotiations have been put on hold until an investigation is completed into the recent Phase I trials with ciprofloxacin. Until adverse reactions were recorded in that Phase I trial, the Company had been making solid progress with *Valortim*. All existing contracts supporting development work on *Valortim* remain in place and are not impacted.

Of the three potential sources of revenue in 2010, the *SparVax* award could have the greatest impact on valuation. Even though the Company already received a development and procurement contract for *Protexia* from the DOD, the *SparVax* award would likely go reach the procurement stage at an earlier date and portends a more significant revenue stream than *Protexia*. Anthrax is perceived to be a greater threat to both civilian and military personnel in the U.S. and around the world. The Company expects to receive orders from U.S. allies such as the United Kingdom after a reliable second generation anthrax vaccine is developed and approved in the U.S.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

Table II: Historical and Projected Sales and Expenses

Dollars in Thousands	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09E	2009E	Base Case 2010E	Award Scenario 2010E
Contract and grant revenue	14,625	5,819	10,914	10,644	5,481	32,858	5,522	8,071	6,830	7,750	28,173	30,000	80,000
Other income	19	21	-	32	-	53	-	-	-	-	-	-	-
Total revenue	14,644	5,840	10,914	10,676	5,481	32,911	5,522	8,071	6,830	7,750	28,173	30,000	80,000
Gross profit	14,644	5,840	10,914	10,676	5,481	32,911	5,522	8,071	6,830	7,750	28,173	30,000	80,000
Operating expenses:													
General & administrative	13,882	4,679	5,174	4,803	4,742	19,398	5,695	4,416	6,225	5,231	21,567	18,000	28,000
Research & development	16,560	5,877	11,184	9,414	5,337	31,812	5,147	9,465	7,610	7,363	29,585	28,500	72,000
Depreciation & amortization	705	196	240	206	172	814	192	199	247	250	888	1,000	1,000
Other	-	-	15,906	225	-	16,131	-	761	274	-	1,035	-	-
Total operating expenses	31,147	10,752	32,504	14,648	10,251	68,155	11,034	14,841	14,356	12,844	53,075	47,500	101,000
Operating income (loss)	(16,503)	(4,912)	(21,590)	(3,972)	(4,770)	(35,244)	(5,512)	(6,770)	(7,526)	(5,094)	(24,902)	(17,500)	(21,000)
Other income (expense)													
Interest income	1,123	472	362	201	190	1,225	104	93	62	100	359	150	150
Interest expense	(2,123)	(667)	(651)	(628)	(632)	(2,578)	(602)	(598)	(749)	(965)	(2,914)	(1,968)	(1,968)
Other, net	3,916	89	26	57	10	182	(3)	644	(5,750)	-	(5,109)	-	-
Total other income (expense)	2,916	(106)	(263)	(370)	(432)	(1,171)	(501)	139	(6,437)	(865)	(7,664)	(1,818)	(1,818)
Net income (loss)	(13,587)	(5,018)	(21,853)	(4,342)	(5,202)	(36,415)	(6,013)	(6,631)	(13,963)	(5,959)	(32,566)	(19,318)	(22,818)
Accretion relating to preferred stock	(4,134)	-	-	-	-	-	-	-	-	-	-	-	-
Income available to shareholders	(17,721)	(5,018)	(21,853)	(4,342)	(5,202)	(36,415)	(6,013)	(6,631)	(13,963)	(5,959)	(32,566)	(19,318)	(22,818)
Net EPS (loss), shareholders	\$ (1.44)	\$ (0.23)	\$ (0.99)	\$ (0.20)	\$ (0.20)	\$ (1.59)	\$ (0.23)	\$ (0.24)	\$ (0.50)	\$ (0.21)	\$ (1.18)	\$ (0.67)	\$ (0.79)
Weighted shares outstand, diluted	9,443	22,087	22,087	22,096	25,500	22,943	26,009	28,057	28,077	28,000	27,536	29,000	29,000

Source: Company Reports and Crystal Equity Research Estimates

Table III: Selected Measures of Historical and Projected Sales and Expenses

Dollars in Thousands	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09E	2009E	Base Case 2010E	Award Scenario 2010E
Total revenue	14,644	5,840	10,914	10,676	5,481	32,911	5,522	8,071	6,830	7,750	28,173	30,000	80,000
Operating income (loss)	(16,503)	(4,912)	(21,590)	(3,972)	(4,770)	(35,244)	(5,512)	(6,770)	(7,526)	(5,094)	(24,902)	(17,500)	(21,000)
Net income (loss)	(13,587)	(5,018)	(21,853)	(4,342)	(5,202)	(36,415)	(6,013)	(6,631)	(13,963)	(5,959)	(32,566)	(19,318)	(22,818)
Income available to shareholders	(17,721)	(5,018)	(21,853)	(4,342)	(5,202)	(36,415)	(6,013)	(6,631)	(13,963)	(5,959)	(32,566)	(19,318)	(22,818)
Net EPS (loss), shareholders	\$ (1.44)	\$ (0.23)	\$ (0.99)	\$ (0.20)	\$ (0.20)	\$ (1.59)	\$ (0.23)	\$ (0.24)	\$ (0.50)	\$ (0.21)	\$ (1.18)	\$ (0.67)	\$ (0.79)
Weighted shares outstand, diluted	9,443	22,087	22,087	22,096	25,500	22,943	26,009	28,057	28,077	28,000	27,536	29,000	29,000
SELECTED MEASURES:													
Sales growth, yr/yr	790.7%					124.7%					-14.3%	6.5%	184.0%
Net income growth, yr/yr	10.2%					168.0%					10.6%	40.7%	29.9%
EPS growth, yr/yr	94.6%					10.3%					25.5%	43.7%	33.5%
Operating margin	-112.7%	-84.1%	-197.8%	-37.2%	-87.0%	-107.1%	-99.8%	-83.9%	-110.2%	-65.7%	-88.4%	-58.3%	-26.3%
EBIT margin	-78.3%	-74.5%	-194.3%	-34.8%	-83.4%	-102.8%	-98.0%	-74.7%	-193.5%	-64.4%	-105.2%	-57.8%	-26.1%
Net margin	-92.8%	-85.9%	-200.2%	-40.7%	-94.9%	-110.6%	-108.9%	-82.2%	-204.4%	-76.9%	-115.6%	-64.4%	-28.5%
Direct costs, % sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
G&A expense, % sales	94.8%	80.1%	47.4%	45.0%	86.5%	58.9%	103.1%	54.7%	91.1%	67.5%	76.6%	60.0%	35.0%
R&D expense, % sales	113.1%	100.6%	102.5%	88.2%	97.4%	96.7%	93.2%	117.3%	111.4%	95.0%	105.0%	95.0%	90.0%
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA, \$\$	(15,848)					(34,431)					(23,902)	(16,500)	(20,000)
EBITDA margin	-108.2%					-104.6%					-84.8%	-55.0%	-25.0%

Source: Company Reports and Crystal Equity Research Estimates

CRYSTAL EQUITY RESEARCH, LLC

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ANALYST

Debra Fiakas, CFA is a seasoned, credentialed investment professional with a diversified and successful track record as a research analyst and as an investment banker. Her decade-plus career includes solid experience in all aspects of the equity capital markets with particular emphasis on emerging growth companies operating in the technology sectors. Ms. Fiakas is also the principal member of Crystal Equity Research, LLC.

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The analyst who is primarily responsible for this research and whose name is listed first under Analysts above certifies that: 1) all of the views expressed in this research accurately reflect his or her professional views about any and all of the subject securities or issuers, and 2) no part of any of the analyst's compensation was, is or will be directly or indirectly related to the specific rating expressed by analyst in this research.

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Speculative Buy	2	40%	Unproven business model; catalysts exist to generate higher returns
Accumulate	2	40%	Long-term return potential above 10%; near-term catalysts may not exist
Hold	0	0%	Total return potential below 10%; an acceptable long-term holding
Sell	0	0%	Potential return greater than negative 10%; take profits or stem losses
Not Rated	1	20%	No rating
Total	5	100%	

*Research universe categorized by rating only; Crystal Equity Research provides no investment banking services.

HISTORICAL RECOMMENDATIONS AND TARGET PRICE: PharmAthene, Inc. / PIP

<u>Report</u>	<u>Date</u>	<u>Price</u>	<u>Rating</u>	<u>Target Price</u>
Initial	9/26/08	\$1.78	Speculative Buy	\$5.35
Update	10/2/08	\$2.12	Speculative Buy	\$5.35
Update	11/14/08	\$0.85	Speculative Buy	\$5.35
Update	3/31/09	\$2.56	Speculative Buy	\$5.35
Update	4/30/09	\$2.53	Speculative Buy	\$5.35
Update	5/15/09	\$2.44	Speculative Buy	\$5.35
Update	7/13/09	\$2.24	Speculative Buy	\$5.35
Update	8/14/09	\$2.92	Speculative Buy	\$5.35
Update	11/18/09	\$3.50	Speculative Buy	\$5.35

DISCLOSURES

<u>Name</u>	<u>Symbol: Exchange</u>	<u>Disclosures</u>
PharmAthene, Inc.	PIP: NYSE Amex	D, E

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- E The company has a convertible issue outstanding.
- F The securities covered in this report can be optioned.
- G The securities covered in this report can be margined.

Crystal Equity Research, LLC received compensation from PharmAthene, Inc. to issue this report.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST. Inquiries may be made by telephone at **212-400-7519**, by electronic message to **info@crystalequityresearch.com** or by mail to **1040 Avenue of the Americas, Floor 24, New York, NY 10018**. Additional information about Crystal Equity Research is available at the firm's web site at **www.crystalequityresearch.com**.

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