

SIGA TECHNOLOGIES INC  
Form 10-Q  
November 02, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2016

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-23047

SIGA Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware 13-3864870

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification. No.)

660 Madison Avenue, Suite 1700 10065  
New York, NY (zip code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (212) 672-9100

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one): Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company .

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

Edgar Filing: SIGA TECHNOLOGIES INC - Form 10-Q

As of October 31, 2016 the registrant had outstanding 54,284,296 shares of common stock, par value \$.0001, per share

---

Table of Contents

SIGA TECHNOLOGIES, INC.  
FORM 10-Q

Table of Contents

	Page No.
<u>PART I-FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (Unaudited)</u> <u>3</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>18</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> <u>24</u>
<u>Item 4.</u>	<u>Controls and Procedures</u> <u>25</u>
<u>PART II- OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> <u>26</u>
<u>Item 1A</u>	<u>Risk Factors</u> <u>27</u>
<u>Item 2.</u>	<u>Unregistered Sale of Equity securities and Use Proceeds</u> <u>27</u>
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u> <u>27</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> <u>27</u>
<u>Item 5.</u>	<u>Other Information</u> <u>27</u>
<u>Item 6.</u>	<u>Exhibits</u> <u>28</u>
<u>SIGNATURES</u>	<u>29</u>

---

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1 - Condensed Consolidated Financial Statements

SIGA TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$20,492,788	\$112,711,028
Accounts receivable	38,747,077	3,676,730
Inventory	17,751,519	12,447,088
Prepaid expenses and other current assets	9,586,430	623,983
Total current assets	86,577,814	129,458,829
Property, plant and equipment, net	330,118	449,825
Deferred costs	74,388,990	52,936,428
Goodwill	898,334	898,334
Other assets	642,083	1,989,520
Total assets	\$162,837,339	\$185,732,936
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable	\$2,925,464	\$3,944,476
Accrued expenses and other current liabilities	4,793,300	3,388,608
PharmAthene Liability	93,654,855	—
Warrant liabilities	6,954,154	—
Total current liabilities	108,327,773	7,333,084
Deferred revenue	367,123,574	255,258,371
Deferred income tax liability, net	281,889	265,643
Other liabilities	269,047	332,218
Liabilities subject to compromise	—	206,972,170
Total liabilities	476,002,283	470,161,486
Stockholders' Deficit		
Common stock (\$.0001 par value, 600,000,000 and 100,000,0000 shares authorized, 54,284,296 and 54,114,296 issued and outstanding at September 30, 2016, and December 31, 2015, respectively)	5,411	5,411
Additional paid-in capital	177,530,037	177,008,371
Accumulated deficit	(490,700,392 )	(461,442,332 )
Total stockholders' deficit	(313,164,944 )	(284,428,550 )
Total liabilities and stockholders' deficit	\$162,837,339	\$185,732,936

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

Table of Contents

SIGA TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/LOSS  
 (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues				
Research and development	\$4,658,355	\$1,327,403	\$7,829,402	\$3,986,955
Operating expenses				
Selling, general and administrative	2,855,255	2,321,236	9,276,507	7,987,498
Research and development	6,068,567	2,426,567	11,553,469	8,197,068
Patent preparation fees	230,246	194,444	689,651	762,881
Litigation accrual	—	13,553	—	40,291
Interest on PharmAthene liability	3,566,451	—	10,716,276	—
Total operating expenses	12,720,519	4,955,800	32,235,903	16,987,738
Operating loss	(8,062,164 )	(3,628,397 )	(24,406,501 )	(13,000,783 )
Interest expense	(94,776 )	—	(104,991 )	(266,726 )
(Increase) in fair value of warrant liabilities	(1,121,530 )	—	(1,121,530 )	—
Other income, net	30,756	12,483	100,556	28,823
Reorganization items, net	—	(1,948,696 )	(3,716,902 )	(5,880,501 )
Loss before income taxes	(9,247,714 )	(5,564,610 )	(29,249,368 )	(19,119,187 )
Benefit and (provision) for income taxes	4,072	(65,910 )	(8,692 )	(238,089 )
Net and comprehensive loss	\$(9,243,642)	\$(5,630,520)	\$(29,258,060)	\$(19,357,276)
Loss per share: basic and diluted	\$(0.17 )	\$(0.10 )	\$(0.54 )	\$(0.36 )
Weighted average shares outstanding: basic and diluted	54,284,296	53,919,896	54,205,354	53,668,463

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

Table of ContentsSIGA TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net Loss	\$(29,258,060)	\$(19,357,276)
Adjustments to reconcile net loss to net cash (used in) provided by in operating activities:		
Depreciation and other amortization	130,704	199,144
Stock-based compensation	521,666	1,225,305
Write-off of leasehold improvements	—	238,501
Increase in fair value of warrant liabilities	1,121,530	—
Non-cash interest expense	—	10,052
Changes in assets and liabilities:		
Accounts receivable	(35,070,347 )	(487,600 )
Inventory	(5,304,431 )	17,952,529
Deferred costs	(21,452,562 )	(21,448,121 )
Prepaid expenses and other current assets	(1,835,322 )	(35,232 )
Other assets	1,347,437	—
Deferred income taxes, net	16,246	13,543
Accounts payable, accrued expenses and other current liabilities	385,680	714,490
PharmAthene liability	93,654,855	—
Liabilities subject to compromise	(206,972,170)	(206,412,018 )
Deferred revenue	111,865,203	255,012,995
Other liabilities	(63,171 )	—
Net cash (used in) provided by operating activities	(90,912,742 )	27,626,312
Cash flows from investing activities:		
Capital expenditures	(10,997 )	(63,166 )
Restricted cash	—	4,000,000
Net cash (used in) provided by investing activities	(10,997 )	3,936,834
Cash flows from financing activities:		
Net proceeds from exercise of warrants and options	—	12,200
Payments associated with loan agreement and rights offering	(1,294,501 )	—
Repayment of long-term debt	—	(2,000,000 )
Net cash (used in) provided by financing activities	(1,294,501 )	(1,987,800 )
Net increase (decrease) in cash and cash equivalents	(92,218,240 )	29,575,346
Cash and cash equivalents at beginning of period	112,711,028	99,713,929
Cash and cash equivalents at end of period	\$20,492,788	\$129,289,275
Supplemental disclosure of non-cash financing activities:		
Fair value of warrants, at issuance date, in connection with loan agreement and recorded as warrant liabilities	\$(5,832,624 )	\$—

The accompanying notes are an integral part of these financial statements



SIGA TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Condensed Consolidated Financial Statements

The financial statements are presented in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (the “SEC”) for quarterly reports on Form 10-Q and should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2015, included in the 2015 Annual Report on Form 10-K. All terms used but not defined elsewhere herein have the meaning ascribed to them in the Company’s 2015 Annual Report on Form 10-K filed on March 4, 2016. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair statement of the results of the interim periods presented have been included. The 2015 year-end condensed balance sheet data was derived from the audited financial statements but does not include all disclosures required by U.S. GAAP. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results expected for the full year.

Our lead product is TPOXX®, also known as tecovirimat or ST-246.

Background of Chapter 11 Case

On September 16, 2014 (the “Petition Date”), the Company filed a voluntary petition for relief under chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) chapter 11 Case Number 14-12623 (SHL). The Company operated its business as a “debtor-in-possession” until its emergence from chapter 11 of the Bankruptcy Code. The Company emerged from chapter 11 of the Bankruptcy Code on April 12, 2016. The Company did not apply the provision of fresh start accounting as ownership of existing shares of the Company's common stock remained unaltered by the Third Amended Chapter 11 Plan.

The Company commenced the chapter 11 case to preserve and to ensure its ability to satisfy its commitments under the BARDA Contract (as defined in Note 3 to the financial statements) and to preserve its operations, which likely would have been jeopardized by the enforcement of a judgment stemming from the litigation with PharmAthene, Inc. (“PharmAthene”) (see “PharmAthene Litigation” below). While operating as a debtor-in-possession under chapter 11, the Company pursued an appeal of the Delaware Court of Chancery Final Order and Judgment, without having to post a bond.

Plan of Reorganization

On April 7, 2016, the Company filed its Third Amended Chapter 11 Plan (the “Plan”), which was supported by the official committee of unsecured creditors appointed in the Company's chapter 11 case (the “UCC”). The Plan, as more fully described below, addresses, among other things, how the Company will treat and satisfy its liabilities relating to the period prior to the commencement of its chapter 11 case, including all claims held by PharmAthene. On April 8, 2016, the Bankruptcy Court confirmed the Plan and on April 12, 2016, the Plan became effective (the “Effective Date of the Plan”).

The Plan provides for, among other things:

• Prepetition unsecured claims (other than PharmAthene’s claim) will be paid in cash in full. As of September 30, 2016, the Company has paid \$785,000 of prepetition unsecured claims.



As of the Effective Date of the Plan, ownership of existing shares of the Company's common stock remained unaltered by the Plan; however, existing shares are subject to potential future cancellation (without receipt of any consideration) in the event that PharmAthene's claim is satisfied through the issuance of newly-issued shares of Company stock (option (ii) described in the second bullet below).

As of the Effective Date of the Plan, the Company paid \$5 million to PharmAthene, to be applied to payments to be made under option (i) set forth in the bullet immediately below, and otherwise nonrefundable.

6

---

Table of Contents

The Company can treat PharmAthene’s claim under the Plan by one of three options: option (i) payment in full in cash of the Company’s obligation under the Delaware Court of Chancery Final Order and Judgment, which is estimated to be approximately \$93.7 million as of September 30, 2016, by a date certain (ii) delivery to PharmAthene of 100% of newly-issued stock of the Company, with all existing shares of the Company’s common stock being cancelled with no distribution to existing stockholders on account thereof; or (iii) such other treatment as is mutually agreed upon by the Company and PharmAthene. On July 8, 2016, pursuant to the Plan, the Company notified PharmAthene (the “Notification”) of its intention to satisfy PharmAthene’s claim by option (i), payment in full in cash. As part of the Notification, the Company paid PharmAthene \$20 million, which is to be applied to payments to be made under option (i) set forth above, and otherwise nonrefundable. As a consequence of the Notification and the payment of \$20 million to PharmAthene, the Company had until October 19, 2016 (“Final Treatment Date”) to settle the PharmAthene claim under the Plan. On July 20, 2016, a joint motion was filed by the Company and PharmAthene with the Bankruptcy Court in which the Company and PharmAthene proposed to further extend the Final Treatment Date to November 30, 2016, provided that the Company made a \$100 million payment to PharmAthene by October 19, 2016 which would be applied to payments to be made under (i) above, otherwise non-refundable. The Bankruptcy Court entered an order affirming the joint motion on August 18, 2016. In September and early October, the Company paid PharmAthene \$90 million and \$10 million, respectively (for a total of \$100 million) in order to satisfy the extension requirement. As of September 30, 2016, a cumulative total of \$115 million of payments have been made by the Company against the PharmAthene claim. As such, the obligation to PharmAthene as of September 30, 2016 is approximately \$93.7 million. In October, the Company paid an additional \$10 million against the PharmAthene obligation. As of October 31, 2016, the Company's remaining obligation to PharmAthene is approximately \$83.7 million.

In addition, the Plan requires the Company to comply with certain affirmative and negative covenants from the Effective Date of the Plan until the covenants are terminated as provided under the Plan, (including, for example, upon full satisfaction of the PharmAthene claim) and if the Company breaches any covenant, PharmAthene is entitled to exercise certain remedies provided in the Plan. In summary, the covenants:

- restrict, limit or prohibit a broad range of potential financial, investment, strategic, and operational transactions, and actions; and
- restrict many types of liens, asset transfers, dividends or indebtedness (unless resulting in full payment of the PharmAthene claim), limit expenditures (including SG&A and R&D expenses) and investments, require maintenance of insurance and intellectual property, restrict certain types of new contracts or changes/terminations to existing contracts, limit a range of employee-related transactions or actions, restrict certain types of tax changes, limit transactions with affiliates and require maintenance of the Company’s business, in particular with respect to its obligations under the BARDA Contract.

The Company does not expect ordinary course activities to be materially impacted by the covenants contained in the Plan, and the Company does not expect the covenants to have a material impact on the ultimate treatment of the PharmAthene claim.

The Plan further provides that an event of default with respect to a covenant contained in the Plan can occur if:

- the Company provides PharmAthene with notice that an event of default has occurred and is continuing; or
- the Bankruptcy Court makes a determination that an event of default has occurred and is continuing.

If an event of default occurs due to a breach of a covenant contained in the Plan, the remedies provided for in the Plan are:

-

the Company would be required to deposit all cash on hand in excess of \$50 million in a collateral account for the benefit of PharmAthene;  
liens on Company assets would be granted to unsecured creditors to secure any remaining payments to be made to creditors under the Plan;  
a monitor would be appointed by PharmAthene, and stationed at the Company, to approve any payments made by the Company; and  
the Company's Board of Directors would be reconstituted, with a majority of directors appointed by PharmAthene.

#### Loan Agreement

On September 2, 2016, we entered into a loan and security agreement (as amended from time to time, the "Loan Agreement") with OCM Strategic Credit SIGTEC Holdings, LLC ("Lender"), pursuant to which the Company will receive \$80 million of gross proceeds upon the satisfaction of certain conditions. Proceeds related to the Loan Agreement (\$80 million) were placed in an

Table of Contents

escrow account on September 30, 2016 (the “Escrow Funding Date”). The Company does not have access to, or any ownership interest in, the escrow account. Proceeds in the escrow account bear interest at a per annum rate equal to the Adjusted LIBOR Rate (as defined in the Loan Agreement) plus 11.50%, subject to adjustment as set forth in the Loan Agreement. Interest on amounts held in the escrow account is payable only if the Escrow Release Date occurs. Upon satisfaction of certain conditions, such as the completion of the Rights Offering (as defined in Note 14, Subsequent Events), funds will be released from the escrow account and be used to pay the PharmAthene claim or transferred to the Reserve Account (the date on which such transfer occurs, the “Escrow Release Date”). Funds will only be released from the escrow account if the PharmAthene Judgment is fully satisfied upon the Escrow Release Date.

The Loan Agreement provides for a first-priority senior secured term loan facility in the aggregate principal amount of \$80,000,000 (the “Term Loan”), of which (i) \$25,000,000 (net of any accrued and unpaid interest owed under the Loan Agreement as of the Escrow Release Date of such Term Loan) will be held in a reserve account (the “Reserve Account”); (ii) \$5,000,000 will also be held in the Reserve Account and up to the full amount of such \$5,000,000 may be withdrawn after June 30, 2018 upon the satisfaction of certain conditions, provided that any of such amount is required to fund any interest to the extent any interest in excess of the \$25,000,000 is due and owing and any of such \$5,000,000 remains in the Reserve Account; and (iii) \$50,000,000 (net of fees and expenses then due and owing to the Lender) of such Term Loan will be paid to PharmAthene or its designee as part of a final payment to satisfy the PharmAthene claim. The \$25,000,000 of funds held in the aforementioned Reserve Account will only be utilized to pay interest on the Term Loan as it becomes due. Funds from the Term Loan can only be released from escrow and used as part of a final payment to satisfy the PharmAthene claim once the Company completes the Rights Offering, and provided that the PharmAthene claim is fully satisfied upon the Escrow Release Date and certain other conditions as more particularly described in the Loan Agreement are satisfied. Until these conditions are met, funds from the Term Loan are not available for use by the Company. Until the Escrow Release Date occurs, the Company does not have an obligation to make any payments under the Loan Agreement, no security shall be granted under the Loan Agreement and no affirmative or negative covenants or events of default shall be effective under the Loan Agreement. As of September 30, 2016, the Escrow Release Date has not occurred and the Lender has not released any funds from the escrow account under the Term Loan.

The Term Loan shall mature on the earliest to occur of (i) the four year anniversary of the Escrow Release Date, (ii) the acceleration of certain obligations pursuant to the Loan Agreement, and (iii) December 1, 2016 if the Escrow Release Date has not occurred by November 30, 2016.

Through the three and one-half year anniversary of the Escrow Release Date, any prepayment of the Term Loan is subject to a make-whole in which interest payments related to the prepaid amount are due (subject to a discount of treasury rate plus 0.50%).

In connection with the Term Loan, the Company will grant the Lender a lien on and security interest in all of the Company’s right, title and interest in substantially all of the Company’s tangible and intangible assets, including all intellectual property.

The Loan Agreement contains customary representations and warranties and customary affirmative and negative covenants. These covenants, among other things, require a minimum cash balance throughout the term of the Term Loan and the achievement of regulatory milestones by certain dates, and contain certain limitations on the ability of the Company to incur unreimbursed research and development expenditures over a certain threshold, make capital expenditures over a certain threshold, incur indebtedness, dispose of assets outside of the ordinary course of business and enter into certain merger or consolidation transactions. The aforementioned minimum cash requirement will be \$15 million after the Escrow Release Date until June 30, 2017 and will reduce to \$10 million for the remainder of 2017 and reduce to \$5 million for 2018 until the earlier of (i) December 31, 2018 and (ii) 45 days after FDA approval of TPOXX; thereafter, the minimum cash requirement will be \$20 million.

The Loan Agreement includes customary events of default, including, among others: (i) non-payment of amounts due thereunder, (ii) the material inaccuracy of representations or warranties made thereunder, (iii) non-compliance with covenants thereunder, (iv) non-payment of amounts due under, or the acceleration of, other material indebtedness of the Company and (v) bankruptcy or insolvency events. Upon the occurrence and during the continuance of an event of default under the Loan Agreement, the interest rate may increase by 2.00% per annum above the rate of interest otherwise in effect, and the Lenders would be entitled to accelerate the maturity of the Company's outstanding obligations thereunder.

In connection with the Loan Agreement, as of September 30, 2016, \$1.2 million of costs have been incurred. The Company expects an additional \$5-\$6 million of fees and expenses to be payable upon, or after, the Escrow Release Date. Furthermore, an incremental \$4 million will become payable when principal of the Term Loan is repaid.

Table of Contents

## Warrant

On September 2, 2016, in connection with the entry into the Loan Agreement, the Company issued a warrant (the “Warrant”) to OCM Strategic Credit SIGTEC Holdings, LLC to purchase a number of shares of the Company’s common stock equal to \$4,000,000 divided by the lower of (i) \$2.29 per share and (ii) the subscription price paid in connection with the Rights Offering (see Note 14, Subsequent Events for a description of the Rights Offering). The exercise price of the Warrant will be the lower of (i) \$2.29 per share and (ii) the subscription price paid in connection with the Rights Offering. The Warrant provides for weighted average anti-dilution protection and is exercisable in whole or in part for ten (10) years from the date of issuance. (please see Note 4 for additional disclosure on the Warrant).

## Liabilities Subject to Compromise

Upon emergence from chapter 11 of the Bankruptcy Code on April 12, 2016, the Company substantially paid all of its Liabilities Subject to Compromise (prepetition liabilities), except for those liabilities related to the PharmAthene claim. The PharmAthene claim has been reclassified from Liabilities Subject to Compromise (non-current liability) to PharmAthene liability (current liability).

The amounts recorded as Liabilities Subject to Compromise represented amounts expected to be allowed in the Company’s chapter 11 case, even if they may be settled for lesser amounts. Such liabilities were reported at the Company's current estimate, where an estimate was determinable, of the allowed claim amount, even though they may have been settled for lesser amounts.

As of December 31, 2015 Liabilities Subject to Compromise consisted of the following:

	December 31, 2015
Accounts payable - pre-petition	834,219
Accrual- PharmAthene Litigation	205,400,068 (1)
Other accrued expenses - pre-petition	737,883
Total	\$206,972,170

(1) Includes a \$3.2 million accrual at December 31, 2015 for reimbursement of PharmAthene attorney's fees and expert fees, against which there is a \$2.7 million surety bond that has cash collateralization of \$1.3 million.

## PharmAthene Litigation

On August 8, 2014, the Delaware Court of Chancery issued its Remand Opinion and related order in the litigation initiated against the Company in 2006 by PharmAthene. In the Remand Opinion, the Court of Chancery determined, among other things, that PharmAthene is entitled to a lump sum damages award for its lost profits related to TPOXX®, with interest and fees, based on United States government purchases of the Company's smallpox drug allegedly anticipated as of December 2006. On January 15, 2015, the Delaware Court of Chancery entered its Final Order and Judgment awarding PharmAthene approximately \$195 million, including pre-judgment interest up to January 15, 2015 (the “Outstanding Judgment”). On January 16, 2015, the Company filed a notice of appeal of the Outstanding Judgment with the Delaware Supreme Court. On October 7, 2015, the Delaware Supreme Court heard oral argument, en banc. On December 23, 2015 the Delaware Supreme Court affirmed the Outstanding Judgment (the “Delaware Supreme Court Affirmation”). As of September 30, 2016, the remaining accrued obligation under the Delaware Court of Chancery Final Order and Judgment, including post-judgment and Plan-specified interest, is estimated to be approximately \$93.7 million. The Outstanding Judgment award will be satisfied in accordance with the Plan as described above.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's ability to continue as a going concern is impacted by the Delaware Supreme Court Affirmation, the magnitude of the remaining obligation to PharmAthene (\$93.7 million) as of September 30, 2016 and by the uncertainty attendant to the exact impact of the Rights Offering and the Term Loan. There can be no assurance that the Company will be able to finalize either the aforementioned Rights Offering or Term Loan, on satisfactory terms or at all. In addition, as of September 30, 2016, the Company has a net capital deficiency of \$313 million. These factors raise substantial doubt about the Company's ability to continue as a going concern. As such, the realization of assets and the satisfaction of liabilities are subject to uncertainties. The accompanying financial statements

Table of Contents

do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

## Other Matters

On the Effective Date of the Plan in accordance with the Plan, the Company filed an amended and restated certificate of incorporation (the "Amended and Restated Certificate of Incorporation"). The Amended and Restated Certificate of Incorporation contains certain amendments to the Company's certificate of incorporation, including an increase in the number of shares of common stock the Company has authority to issue. Under the Amended and Restated Certificate of Incorporation, the Company has authority to issue up to 600,000,000 shares of common stock.

On September 16, 2014, the Company received a letter from the NASDAQ Stock Market LLC asserting that, based on the Company's chapter 11 filing, the Company no longer met the continuing listing requirements necessary to maintain its listing on the NASDAQ Stock Market and would be promptly delisted. On March 18, 2015, after the expiration of an extension of time granted pursuant to a Company appeal, the Company received a letter from the NASDAQ hearings panel stating that the Company's securities would be delisted from the NASDAQ Stock Market. On March 20, 2015, the Company's common shares were suspended from trading on the NASDAQ Global Market at the opening of business and the Company's shares began trading on the OTC Markets under the "SIGAQ" symbol. Following the Effective Date of the Plan, on April 18, 2016, the trading of the Company's shares on the OTC Markets moved from the "SIGAQ" symbol to the "SIGA" symbol.

## 2. Reorganization Items, net:

Reorganization items reflect expenses in connection with the chapter 11 case. For the three and nine months ended September 30, 2016 and 2015, reorganization items consisted of expenses through the Effective Date of the Plan:

	Three months ended September 30, 2016	Nine months ended September 30, 2016	2015
Legal fees	\$1,449,543	\$1,951,381	\$4,279,937
Professional fees	486,153	1,732,521	1,555,892
Trustee fees	13,000	33,000	39,000
Other	—	—	5,672
Totals	1,948,696	3,716,902	5,880,501

Subsequent to the Effective Date of the Plan, expenses directly attributable to the implementation of the Plan are reported in selling, general and administrative. During the nine months ended September 30, 2016, through the Effective Date of the Plan, the Company paid approximately \$4.6 million for reorganization items. During the three and nine months ended September 30, 2015, the Company paid approximately \$2.2 million and \$5.1 million, respectively, for reorganization items.

## 3. Procurement Contract and Research Agreements

## Procurement Contract



On May 13, 2011, the Company signed a contract with the U.S. Biomedical Advanced Research and Development Authority ("BARDA") pursuant to which SIGA agreed to deliver two million courses of TPOXX® to the U.S. Strategic National Stockpile ("Strategic Stockpile"). The contract with BARDA (as modified, the "BARDA Contract") is worth approximately \$472 million, including \$409.8 million for manufacture and delivery of 1.7 million courses of TPOXX® and \$62 million of potential reimbursements related to development and supportive activities (the "Base Contract").

Under the Base Contract, BARDA has agreed to buy from the Company 1.7 million courses of TPOXX®. Additionally, the Company expects to contribute to BARDA 300,000 courses at no additional cost to BARDA.

On June 28, 2016, the Company entered into a modification of the BARDA Contract (the "BARDA Contract Modification"). The total value of the BARDA Contract is unchanged. Pursuant to the BARDA Contract Modification:

10

---

Table of Contents

The payment for the manufacture and delivery of 1.7 million courses of TPOXX® increased by \$61.5 million. This was accomplished by reducing the holdback amount that is tied to the United States Food & Drug Administration (the "FDA") approval of TPOXX® from \$102.5 million to \$41 million. In July 2016, the Company received payment of \$32.6 million in connection with the BARDA Contract Modification for courses previously delivered to the Strategic Stockpile.

The requirements for the \$20.5 million milestone changed. For payment, this milestone was modified to require the Company to submit documentation to BARDA indicating that data covering the first 100 subjects enrolled in the phase III pivotal safety study have been submitted to and reviewed by a Data & Safety Monitoring Board ("DSMB") and that such DSMB has recommended continuation of the safety study, as well as submission of the final pivotal rabbit efficacy study report to the FDA. Previously, this milestone required the successful submission to the FDA of a complete application for TPOXX® regulatory approval. During the third quarter of 2016, the Company has met the modified milestone and has received payment.

As of September 30, 2016, the Company has received \$323.6 million under the Base Contract related to the manufacture and physical delivery of courses of TPOXX®. Included in this amount are a \$41 million advance payment in 2011 for the completion of certain planning and preparatory activities related to the Base Contract, a \$12.3 million milestone payment in 2012 for the completion of the product labeling strategy for TPOXX®, an \$8.2 million milestone payment in 2013 for the completion of the commercial validation campaign for TPOXX®, a \$20.5 million milestone payment in 2016 for submission of documentation to BARDA indicating that data covering the first 100 subjects enrolled in the phase III pivotal safety study have been submitted to and reviewed by a DSMB and that such DSMB has recommended continuation of the safety study, as well as submission of the final pivotal rabbit efficacy study report to the FDA, and \$241.5 million of payments for physical deliveries of TPOXX® to the Strategic Stockpile beginning in 2013.

As of September 30, 2016, the Company is eligible to receive an additional \$86.3 million under the Base Contract for the manufacture, delivery and purchase by BARDA of courses of TPOXX®. Included in this amount are: \$45.4 million of payments related to physical deliveries of TPOXX® to the Strategic Stockpile ; and a \$41 million hold back payment, which represents an approximate 10% hold back on the \$409.8 million of total payments tied to the manufacture and delivery of 1.7 million courses of TPOXX® that are to be purchased by BARDA. The \$41 million hold back payment would be triggered by FDA approval of TPOXX®, as long as the Company does not have a continuing product replacement obligation to BARDA. In October 2016, the Company received a \$36.8 million payment for the product delivery (in September) of 218,000 courses of TPOXX®. This amount is recorded as a receivable at September 30, 2016.

With regard to future product deliveries, between November 2016 and first quarter 2017, the Company expects to deliver and invoice for approximately 51,000 courses of TPOXX® in order to receive the remaining payments (approximately \$8.5 million) tied to the physical delivery of TPOXX® to the Strategic Stockpile. In total, the Company expects to deliver approximately 627,000 courses of TPOXX® between November, 2016 and late 2017 in order to fulfill the delivery requirements of the BARDA Contract. Courses to be delivered are expected to be at a dosage of 600 mg administered twice per day (1,200 mg per day), and 51,000 courses are expected to be invoiced and 576,000 courses are expected to be at no additional cost to BARDA. Most of the "no additional cost to BARDA" courses are attributable to a change in TPOXX® dosage (see paragraph below).

Starting in 2015, product deliveries of TPOXX® have been at a provisional dosage of 600 mg administered twice per day (1,200 mg per day). This is a change from the provisional dosage that was in effect when product deliveries were made in 2013 and 2014 (600 mg per day). In 2013 and 2014, the provisional dosage of courses delivered to the Strategic Stockpile was 600 mg administered once a day. The change in the provisional dosage is based on FDA guidance received by the Company in 2014, subsequent to the delivery of 1.3 million courses of TPOXX®. Based on

the current provisional dosage of 600 mg administered twice per day (1,200 mg per day), the Company expects to supplement previously delivered courses of TPOXX®, at no additional cost to BARDA, with additional dosages so that all of the courses previously delivered to BARDA will be at the new provisional dosage. The Company and BARDA agreed to an amendment (the “BARDA Amendment”) of the BARDA Contract to reflect the foregoing, which modification was approved by the Bankruptcy Court in April 2015. In February 2016, the FDA confirmed (through dose concurrence) its earlier dosage guidance of 600 mg administered twice per day (1,200 mg per day).

The Company expects to incur significant incremental costs with the production of additional dosage.

## Table of Contents

In addition to the Base Contract, the BARDA Contract also separately contains \$122.7 million of options that, if exercised by BARDA: would result in a \$50 million payment to the Company in the event of FDA approval for extension to 84-month expiry for TPOXX® (from 38 month expiry as required in the Base Contract); would fund up to \$58.3 million of development and supportive activities such as work on a smallpox prophylaxis indication for TPOXX®; and/or would fund \$14.4 million of production-related activities related to warm-base manufacturing. In 2015, BARDA exercised two options related to extending the indication of the drug to the geriatric and pediatric populations. The stated value of these exercises was minimal. BARDA may not exercise additional options in the future. Options are exercisable by BARDA at its sole discretion. BARDA has indicated that it will evaluate, after the FDA's review and evaluation of stability data, the Company's request that BARDA exercise the option for the \$50 million payment to the Company in the event of FDA approval of 84-month expiry for TPOXX®.

The BARDA Contract expires in September 2020.

The BARDA Contract is a multiple deliverable arrangement comprising delivery of courses and covered research and development activities. The BARDA Contract provides certain product replacement rights with respect to delivered courses. For this reason, recognition of revenue that might otherwise occur upon delivery of courses is expected to be deferred until the Company's obligations related to potential replacement of delivered courses are satisfied. The Company assessed the selling price for each of the aforementioned deliverables - research and development activities and drug product. The selling price of certain reimbursed research and development services was determined by reference to existing and past research and development grants and contracts between the Company and various government agencies. The selling price of drug product was determined by reference to other Companies' sales of drug products such as antiviral therapeutics, orphan drugs and drugs with potential life-saving impact similar to TPOXX®, including products delivered to the Strategic Stockpile.

The Company has recognized revenue for reimbursement of certain BARDA Contract research and development services. Cash inflows related to delivery of courses will continue to be recorded as deferred revenue. In addition, direct costs incurred by the Company to fulfill the delivery of courses including the supplementing of courses previously delivered under the BARDA Contract are being deferred and will be recognized as expenses over the same period that the related deferred revenue is recognized as revenue.

As of September 30, 2016 and December 31, 2015, deferred direct costs under the BARDA Contract of approximately \$74.4 million and \$52.9 million, respectively, are included in deferred costs on the consolidated balance sheets. As of September 30, 2016, the Company recorded \$367.1 million of deferred revenue. Deferred revenue has been recorded for the delivery of courses of TPOXX® to the Strategic Stockpile and certain supportive services provided as part of the BARDA Contract. For the three and nine months ended September 30, 2016, revenue from reimbursed research and development was \$4.3 million and \$6.4 million, respectively.

### Research Agreements

The Company obtains funding from the contracts and grants it obtains from various agencies of the U.S. Government to support its research and development activities. Currently, the Company has one contract and one grant with varying expiration dates through February 2018 that provide for potential future aggregate research and development funding for specific projects of approximately \$8.3 million. We may not utilize all available funds under the contract and/or grant.

The funded amount includes, among other things, options that may or may not be exercised at the U.S. government's discretion. Moreover, the contract and grant contain customary terms and conditions including the U.S. Government's right to terminate or restructure a grant for convenience at any time.

## 4. Financial Instruments

September 2016 Warrant

On September 2, 2016, in connection with the entry into the Loan Agreement, the Company issued the Warrant. The exercise price of the Warrant will be the lower of (i) \$2.29 per share and (ii) the subscription price paid in connection with the Rights Offering. The Warrant provides for weighted average anti-dilution protection and is exercisable in whole or in part for ten (10) years from the date of issuance.

The Company classified the Warrant as a liability. The Company is required to revalue the liability classified Warrant at the end of each reporting period with the change in fair value being reported in earnings or loss.

On September 2, 2016, the date of issuance, the fair value of the Warrant was \$5.8 million. A Monte Carlo simulation-model was applied to calculate the fair value of the liability classified Warrant using the following assumptions: risk free interest rate of 1.6%; no dividend yield; an expected life of 10 years; and a volatility factor of 80%. The fair value of the Warrant at September

Table of Contents

30, 2016 was \$6.9 million. For the quarter-ended September 30, 2016, the Company recorded a loss of \$1.1 million as a result of a net increase in fair value in the liability classified Warrant.

**Other Warrants**

On April 30, 2013, the Company entered into a Services Agreement with M&F, a related party, for certain professional and administrative services. The Services Agreement had a term of three years. As consideration for the Services Agreement, the Company issued warrants to M&F (the "M&F Warrants") to acquire 250,000 shares of common stock at an exercise price of \$3.29 per share. The M&F Warrants were fully vested, immediately exercisable and remained exercisable for two years from issuance date. The grant-date fair value, determined using the Black-Scholes model, was recorded as an asset with a corresponding increase to equity. The asset was amortized over the contractual term of the M&F Warrant. On April 30, 2015, the M&F Warrants expired. For the nine months ended September 30, 2016 and 2015, the Company recorded an expense of \$0 and \$45,456, respectively.

**5. Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value due to the relatively short maturity of these instruments.

The measurement of fair value requires the use of techniques based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations where inputs are observable or where significant value drivers are observable.

Level 3 – Instruments where significant value drivers are unobservable to third parties.

The Company classifies the Warrant in level 2. As of September 30, 2016, the Company did not hold any level 3 securities.

**6. Per Share Data**

The Company incurred losses for the three and nine months ended September 30, 2016 and 2015 and as a result, equity instruments are excluded from the calculation of diluted loss per share as the effect of such shares is anti-dilutive. The weighted average number of equity instruments excluded consists of:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Stock Options	1,756,967	2,035,467	1,802,277	2,066,848
Stock-Settled Stock Appreciation Rights	360,031	365,689	360,125	369,222
Restricted Stock Units	586,675	(1)853,840	(2)603,427	1,039,907
Warrants	840,579	(3)—	282,238	(3)109,890

The appreciation of each stock-settled stock appreciation right was capped at a determined maximum value. As a result, the weighted average number shown in the table above for stock-settled stock appreciation rights reflects the weighted average maximum number of shares that could be issued.

- (1) Includes 313,337 restricted stock units that have vested but have not converted into common stock.
- (2) Included 240,000 restricted stock units that vested but had not converted into common stock.
- (3) For the three and nine months ended September 30, 2016, the weighted average number of shares that could be purchased with the Warrant issued on September 2, 2016. Number of shares to be purchased under the Warrant will be equal to \$4,000,000 divided by the lower of (i) \$2.29 per share and (ii) the subscription price paid in connection with the Rights Offering.

Table of Contents

## 7. Related Party Transactions

In October 2012, the Company funded a letter of credit and deposit to take advantage of a lease for office space secured by an affiliate of M&F from a third party landlord on behalf of the Company. Pursuant to such letter of credit, in January 2013 the Company entered into a sublease in which the Company will pay all costs associated with the lease, including rent. All payments made by the Company pursuant to the sublease will either be directly or indirectly made to the third-party landlord and not retained by M&F or any affiliate. The sublease allowed for a free rent period of five months beginning April 1, 2013; subsequent to the free rent period, monthly rent payments are \$60,000 for the first five years and \$63,000 for the next two years. Upon expiration on September 1, 2020, the sublease and lease provides for two consecutive five year renewal options.

The Company had a Services Agreement with M&F and a warrant agreement with M&F. Refer to Note 4 to the financial statements for additional information.

In connection with a planned Rights Offering, the Company has entered into a backstop agreement with M&F. Please see the Subsequent Events note for a description of the backstop agreement.

A member of the Company's Board of Directors is a member of the Company's outside counsel. During the three months ended September 30, 2016, and 2015, the Company incurred costs of \$528,436, and \$102,000, respectively, related to services provided by the outside counsel. During the nine months ended September 30, 2016 and 2015, the Company incurred costs of \$1,065,873 and \$475,000, respectively. On September 30, 2016, the Company's outstanding payables included \$511,027 payable to the outside counsel.

## 8. Inventory

The value of inventory represents the costs incurred to manufacture TPOXX® under the BARDA Contract. Additional costs incurred to complete production of courses of TPOXX® will be recorded as inventory and reclassified to deferred costs upon delivery to the extent related revenue is deferred.

Inventory consisted of the following at September 30, 2016, and December 31, 2015:

	September 30, December 31,	
	2016	2015
Work in-process	\$ 17,751,519	\$ 12,447,088
Inventory	\$ 17,751,519	\$ 12,447,088

## 9. Property, Plant and Equipment

Property, plant and equipment consisted of the following at September 30, 2016 and December 31, 2015:

	September 30, December 31,	
	2016	2015
Leasehold improvements	\$ 2,542,043	\$ 2,542,044
Computer equipment	762,977	754,502
Furniture and fixtures	455,219	452,696
	3,760,239	3,749,242
Less - accumulated depreciation	(3,430,121 )	(3,299,417 )
Property, plant and equipment, net	\$ 330,118	\$ 449,825



Depreciation and amortization expense on property, plant, and equipment was \$42,660 and \$52,290 for the three months ended September 30, 2016 and 2015, respectively, and was \$130,704 and \$199,144 for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

## 10. Accrued Expenses

Accrued expenses and other current liabilities consisted of the following at September 30, 2016 and December 31, 2015:

	September 30, December 31,	
	2016	2015
Bonus	\$ 1,384,184	\$ 580,801
Professional fees	2,069,198	597,721
Vacation	255,553	227,863
Other (primarily R&D vendors)	1,084,365	1,982,223
Accrued expenses and other current liabilities	\$ 4,793,300	\$ 3,388,608

## 11. Income Taxes

Accounting Standards Codification (“ASC”) 740, Income Taxes requires that a valuation allowance be established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including company's performance, the market environment in which the Company operates, the utilization of past tax credits, length of carryback and carryforward periods, existing contracts, and unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels in the future years. Based on the available evidence, the Company continues to conclude that its deferred tax assets are not realizable on a more-likely-than-not basis.

For the three and nine months ended September 30, 2016, the Company recorded an income tax benefit and (provision) of \$4,000 and \$(8,700), respectively, on a pre-tax loss of \$9.2 million and \$29.2 million, respectively. The effective tax rate differs from the statutory rate as no income tax benefit was recorded for current year operating losses due to the Company’s assessment regarding tax realizability of its deferred tax asset.

## 12. Recent Accounting Pronouncements

On August 26, 2016, the FASB issued ASU 2016--15, Statement of Cash Flows (Topic 230), a consensus of the FASB’s Emerging Issues Task Force. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company believes the adoption of the ASU will not have an impact on its consolidated financial statements.

In March 2016, the FASB amended the existing accounting standards for stock-based compensation, ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments impact several aspects of accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company is required to adopt the amendments in the first quarter of 2017, with early adoption permitted. If early adoption is elected, all amendments must be adopted in the same period. The manner of application varies by the various provisions of the guidance, with certain provisions applied on a retrospective or modified retrospective approach, while others are applied prospectively. The Company believes the adoption of the ASU will not have an impact on its consolidated financial statements.

On November 20, 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. Current GAAP requires the deferred taxes to be presented as a net current asset or liability and net noncurrent asset or liability.

This requires a jurisdiction-by-jurisdiction analysis based on the classification of the assets and liabilities to which the underlying temporary differences relate, or, in the case of loss or credit carryforwards, based on the period in which the attribute is expected to be realized. Any valuation allowance is then required to be allocated on a pro rata basis, by jurisdiction, between current and noncurrent deferred tax assets. To simplify presentation, the new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance does not change the existing requirement that only permits offsetting within a jurisdiction – that is, companies are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance retrospectively as of December 31, 2015.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Inventory measured using last-in, first-out (LIFO) and the retail inventory method (RIM) are not impacted by the new guidance. The ASU only addresses the measurement

## Table of Contents

of the inventory if its value declines or is impaired. Prior to the issuance of the standard, inventory was measured at the lower of cost or market (where market was defined as replacement cost, with a ceiling of net realizable value and floor of net realizable value less a normal profit margin). This necessitated obtaining three data points to determine market value. Replacing the concept of market with the single measurement of net realizable value is intended to create efficiencies. The ASU defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective prospectively for annual periods beginning after December 15, 2016. The Company believes the adoption of the ASU will not have an impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU requires management to assess whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, disclose that fact. Management will also be required to evaluate and disclose whether its plans alleviate that doubt. This ASU states that, when making this assessment, management should consider relevant conditions or events that are known or reasonably knowable on the date the financial statements are issued or available to be issued. This ASU is effective for annual periods ending after December 15, 2016 and interim periods thereafter, and early adoption is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific revenue recognition guidance throughout the Industry Topics of the Accounting Standards Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is effective for the first interim period within annual reporting periods beginning after December 15, 2017, and early adoption is permitted for the first interim period within annual reporting period beginning after December 15, 2016. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

### 13. Commitments and Contingencies

In December 2006, PharmAthene filed an action against us in the Delaware Court of Chancery captioned PharmAthene, Inc. v. SIGA Technologies, Inc., C.A. No. 2627-VCP. In its amended complaint, PharmAthene asked the Court to order us to enter into a license agreement with PharmAthene with respect to TPOXX®, to declare that we are obliged to execute such a license agreement, and to award damages resulting from our alleged breach of that obligation. PharmAthene also alleged that we breached an obligation to negotiate such a license agreement in good faith, and sought damages for promissory estoppel and unjust enrichment based on information, capital, and assistance that PharmAthene allegedly provided to us during the negotiation process.

In September 2011, the Court of Chancery issued its post-trial opinion. The Court denied PharmAthene's requests for specific performance and expectation damages measured by present value of estimated future profits. Nevertheless, the Court held that we breached our duty to negotiate in good faith and were liable under the doctrine of promissory estoppel. The Court consequently awarded to PharmAthene what the Court described as an equitable payment stream or equitable lien consisting of fifty percent of the net profits that the Company achieves from sales of ST-246 after securing \$40 million in net profits, for ten years following the first commercial sale. In addition, the Court awarded PharmAthene one-third of its reasonable attorneys' fees and expert witness expenses of \$2.4 million.

In May 2012, the Court of Chancery entered its final order and judgment, implementing its post-trial opinion.

In June 2012, the Company appealed to the Delaware Supreme Court the final order and judgment and certain earlier rulings of the Court of Chancery. Shortly thereafter, PharmAthene filed its cross-appeal. The Company obtained a stay of enforcement of the fee and expense portion of the judgment by filing a surety bond for the amount of the judgment plus post-judgment interest. We posted \$1.3 million of cash as approximately 50% collateral for a \$2.7 million surety bond. The \$1.3 million of cash collateral is recorded in other assets as of September 30, 2016.

On May 24, 2013, the Supreme Court of Delaware issued its decision, affirming the Delaware Court of Chancery's judgment in part, reversing it in part, and remanding to Court of Chancery.

On August 8, 2014, the Court of Chancery issued its Remand Opinion. In its Remand Opinion, the Court of Chancery reversed its earlier conclusions and held that PharmAthene had carried its burden of demonstrating its entitlement to lump sum expectation damages for lost profits related to TPOXX® by a preponderance of the evidence.

## Table of Contents

On September 16, 2014, as a consequence of SIGA's chapter 11 filing, the legal proceedings with PharmAthene were stayed (see Note 1 to the financial statements). On October 8, 2014, the Bankruptcy Court approved a Stipulation between the Company and PharmAthene partially lifting the stay to permit the litigation before the Delaware Chancery Court to proceed, including all appeals. The Stipulation, however, provides that the stay shall remain in effect with respect to the enforcement of any judgment that may be entered.

On January 15, 2015, the Delaware Court of Chancery entered its Final Order and Judgment, awarding to PharmAthene \$113,116,985 in contract expectation damages, plus pre-judgment interest up to January 15, 2015, and certain permitted legal fees, costs, and expenses, for a judgment of \$194,649,042. Pursuant to the Final Order and Judgment, SIGA also is liable to PharmAthene for post-judgment interest, which was specified in the Final Order and Judgment to be \$30,663.89, per diem, such per diem amount to be periodically adjusted to reflect the applicable Delaware legal rate.

On January 16, 2015, the Company appealed from certain portions of the Delaware Court of Chancery's rulings on remand, including but not limited to the Final Order and Judgment, to the Delaware Supreme Court.

On October 7, 2015, the Delaware Supreme Court heard oral argument, en banc. On December 23, 2015, the Delaware Supreme Court affirmed the Final Order and Judgment (the "Delaware Supreme Court Affirmation").

As of September 30, 2016, the accrued obligation under the Delaware Court of Chancery Final Order and Judgment, including post-judgment and Plan-specified interest, is estimated to be approximately \$93.7 million. As specified in the Plan, starting at the Effective Date of the Plan, interest accrues at an annual rate of 8.75% against the amount owed to PharmAthene. The accrued obligation includes a \$3.2 million reimbursement obligation to PharmAthene for attorney's fees and expert expenses related to the case. The Final Order and Judgment will be satisfied in accordance with the Plan as described in Note 1 to the financial statements.

From time to time, the Company is involved in disputes or legal proceedings arising in the ordinary course of business. The Company believes that there is no dispute or litigation pending, except as discussed above, that could have, individually or in the aggregate, a material adverse effect on its financial position, results of operations or cash flows.

### 14. Subsequent Events

#### Rights Offering

On October 21, 2016, the Company commenced an equity rights offering (the "Rights Offering") for approximate gross proceeds of \$35.3 million. As part of the Rights Offering, each stockholder of the Company received one subscription right for each share of common stock owned as of the record date of October 12, 2016. Each subscription right entitles its holder to invest \$0.65 towards the purchase of shares of the Company's common stock at a subscription price equal to the lower of \$1.50 or 85% of the volume weighted average price of Company shares during market hours on the expiration date of the Rights Offering.

The Rights Offering is expected to expire at 5:00 pm, New York City time, on November 8, 2016, subject to early termination or extension. Subscription rights that are not exercised prior to the expiration date will expire and have no value.

Proceeds from the Rights Offering, in combination with other sources of liquidity, will be used by the Company to satisfy the remaining portion of the PharmAthene liability.

Rights Offering - Backstop Agreement

On October 13, 2016, in connection with the Rights Offering as discussed above, the Company entered into an investment agreement, or “backstop agreement,” with ST Holdings One LLC (“MacAndrews”), which is a wholly owned subsidiary of MacAndrews & Forbes LLC, and other parties (collectively, together with MacAndrews, the “Backstop Parties”). Under the terms of the backstop agreement, the Backstop Parties will purchase, pursuant to a separate private placement, a number of shares of the Company common stock equal to the number of shares that are not subscribed for in the Rights Offering, if any, provided that to the extent MacAndrews’ acquisition of the Company’s voting stock would require a filing and approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the “HSR Act”), MacAndrews will receive non-voting convertible preferred stock in lieu of common stock, which preferred stock will automatically convert to common stock upon receipt of HSR Act approval, and will not be convertible to common stock without such HSR Act approval. Under the backstop agreement, the subscription price will be equal to the subscription price applicable to all shareholders under the rights offering. The Backstop Parties, taken together, will receive the backstop fee of \$1.76 million, or 5% of the maximum gross proceeds of the rights offering, for providing the backstop commitment, payable, at the option of the Company, in cash or stock or, subject to the mutual agreement of the parties, other

## Table of Contents

equity securities. The backstop agreement contains representations, warranties, covenants, conditions and indemnification provisions customary for agreements of its type. In addition, the Backstop Parties have certain registration rights with respect to shares received pursuant to the backstop agreement.

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

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes to those statements and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q. In addition to historical information, the following discussion and other parts of this Quarterly Report contain forward-looking information that involves risks and uncertainties.

#### Overview

We are a company specializing in the development and commercialization of solutions for serious unmet medical needs and biothreats. Our lead product is TPOXX®, an orally administered antiviral drug that targets orthopoxviruses, including smallpox. While TPOXX® is not yet licensed as safe or effective by the U.S. Food & Drug Administration, it is a novel small-molecule drug that is being delivered to the Strategic National Stockpile under Project Bioshield.

#### Background of Chapter 11 Case

On September 16, 2014 (the "Petition Date"), the Company filed a voluntary petition for relief under chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") chapter 11 Case Number 14-12623 (SHL). The Company operated its business as a "debtor-in-possession" until its emergence from chapter 11 of the Bankruptcy Code. The Company emerged from chapter 11 of the Bankruptcy Code on April 12, 2016. The Company did not apply the provision of fresh start accounting as ownership of existing shares of the Company's common stock remained unaltered by the Third Amended Chapter 11 Plan.

The Company commenced the chapter 11 case to preserve and to ensure its ability to satisfy its commitments under the BARDA Contract (as defined in Note 3 to the financial statements) and to preserve its operations, which likely would have been jeopardized by the enforcement of a judgment stemming from the litigation with PharmAthene, Inc. ("PharmAthene") (see "PharmAthene Litigation" below). While operating as a debtor-in-possession under chapter 11, the Company pursued an appeal of the Delaware Court of Chancery Final Order and Judgment, without having to post a bond.

#### Plan of Reorganization

For discussion regarding the Company's Plan of Reorganization, see Note 1 to Condensed Consolidated Financial Statements.

#### Loan Agreement

On September 2, 2016, we entered into a loan and security agreement (as amended from time to time, the "Loan Agreement") with OCM Strategic Credit SIGTEC Holdings, LLC ("Lender"), pursuant to which the Company will receive \$80 million of gross proceeds upon the satisfaction of certain conditions. Proceeds related to the Loan Agreement (\$80 million) were placed in an escrow account on September 30, 2016 (the "Escrow Funding Date"). The Company does not have access to, or any ownership interest in, the escrow account. Proceeds in the escrow account bear interest at a per annum rate equal to the Adjusted LIBOR Rate (as defined in the Loan Agreement) plus 11.50%, subject to adjustment as set forth in the Loan Agreement. Interest on amounts held in the escrow account is payable only if the Escrow Release Date occurs. Upon satisfaction of certain conditions, such as the completion of a



\$35,000,000 rights offering (the "Rights Offering"), funds will be released from the escrow account and be used to pay the PharmAthene claim or transferred to the Reserve Account (the date on which such transfer occurs, the "Escrow Release Date"). Funds will only be released from the escrow account if the PharmAthene Judgment is fully satisfied up the Escrow Release Date.

The Loan Agreement provides for a first-priority senior secured term loan facility in the aggregate principal amount of \$80,000,000 (the "Term Loan"), of which (i) \$25,000,000 (net of any accrued and unpaid interest owed under the Loan Agreement as of the Escrow Release Date of such Term Loan) will be held in a reserve account (the "Reserve Account"); (ii) \$5,000,000 will also be held in the Reserve Account and up to the full amount of such \$5,000,000 may be withdrawn after June 30, 2018 upon the satisfaction of certain conditions, provided that any of such amount is required to fund any interest to the extent any interest in

Table of Contents

excess of the \$25,000,000 is due and owing and any of such \$5,000,000 remains in the Reserve Account; and (iii) \$50,000,000 (net of fees and expenses then due and owing to the Lender) of such Term Loan will be paid to PharmAthene or its designee as part of a final payment to satisfy the PharmAthene claim. The \$25,000,000 of funds held in the aforementioned Reserve Account will only be utilized to pay interest on the Term Loan as it becomes due. Funds from the Term Loan can only be released from escrow and used as part of a final payment to satisfy the PharmAthene claim once the Company completes the Rights Offering, and provided that the PharmAthene claim is fully satisfied upon the Escrow Release Date and certain other conditions as more particularly described in the Loan Agreement are satisfied. Until these conditions are met, funds from the Term Loan are not available for use by the Company. Until the Escrow Release Date occurs, the Company does not have an obligation to make any payments under the Loan Agreement, no security shall be granted under the Loan Agreement and no affirmative or negative covenants or events of default shall be effective under the Loan Agreement. As of September 30, 2016, the Escrow Release Date has not occurred and the Lender has not released any funds from the escrow account under the Term Loan.

The Term Loan shall mature on the earliest to occur of (i) the four year anniversary of the Escrow Release Date, (ii) the acceleration of certain obligations pursuant to the Loan Agreement, and (iii) December 1, 2016 if the Escrow Release Date has not occurred by November 30, 2016.

Through the three and one-half year anniversary of the Escrow Release Date, any prepayment of the Term Loan is subject to a make-whole in which interest payments related to the prepaid amount are due (subject to a discount of treasury rate plus 0.50%).

In connection with the Term Loan, the Company will grant the Lender a lien on and security interest in all of the Company's right, title and interest in substantially all of the Company's tangible and intangible assets, including all intellectual property.

The Loan Agreement contains customary representations and warranties and customary affirmative and negative covenants. These covenants, among other things, require a minimum cash balance throughout the term of the Term Loan and the achievement of regulatory milestones by certain dates, and contain certain limitations on the ability of the Company to incur unreimbursed research and development expenditures over a certain threshold, make capital expenditures over a certain threshold, incur indebtedness, dispose of assets outside of the ordinary course of business and enter into certain merger or consolidation transactions. The aforementioned minimum cash requirement will be \$15 million after the Escrow Release Date until June 30, 2017 and will reduce to \$10 million for the remainder of 2017 and reduce to \$5 million for 2018 until the earlier of (i) December 31, 2018 and (ii) 45 days after FDA approval of TPOXX; thereafter, the minimum cash requirement will be \$20 million.

The Loan Agreement includes customary events of default, including, among others: (i) non-payment of amounts due thereunder, (ii) the material inaccuracy of representations or warranties made thereunder, (iii) non-compliance with covenants thereunder, (iv) non-payment of amounts due under, or the acceleration of, other material indebtedness of the Company and (v) bankruptcy or insolvency events. Upon the occurrence and during the continuance of an event of default under the Loan Agreement, the interest rate may increase by 2.00% per annum above the rate of interest otherwise in effect, and the Lenders would be entitled to accelerate the maturity of the Company's outstanding obligations thereunder.

In connection with the Loan Agreement, as of September 30, 2016, \$1.2 million of costs have incurred. The Company expects an additional \$5-\$6 million of fees and expenses to be payable upon, or after, the Escrow Release Date. Furthermore, an incremental \$4 million will become payable when principal of the Term Loan is repaid.

## Warrant

On September 2, 2016, in connection with the entry into the Loan Agreement, the Company issued a warrant (the “Warrant”) to OCM Strategic Credit SIGTEC Holdings, LLC to purchase a number of shares of the Company’s common stock equal to \$4,000,000 divided by the lower of (i) \$2.29 per share and (ii) the subscription price paid in connection with the Rights Offering (see Note 14, Subsequent Events for a description of the Rights Offering). The exercise price of the Warrant will be the lower of (i) \$2.29 per share and (ii) the subscription price paid in connection with the Rights Offering. The Warrant provides for weighted average anti-dilution protection and is exercisable in whole or in part for ten (10) years from the date of issuance. (please see Note 4 for additional disclosure on the Warrant).

## PharmAthene Litigation

19

---

## Table of Contents

On August 8, 2014, the Delaware Court of Chancery issued its Remand Opinion and related order in the litigation initiated against the Company in 2006 by PharmAthene. In the Remand Opinion, the Court of Chancery determined, among other things, that PharmAthene is entitled to a lump sum damages award for its lost profits related to TPOXX®, with interest and fees, based on United States government purchases of the Company's smallpox drug allegedly anticipated as of December 2006. On January 15, 2015, the Delaware Court of Chancery entered its Final Order and Judgment awarding PharmAthene approximately \$195 million, including pre-judgment interest up to January 15, 2015 (the "Outstanding Judgment"). On January 16, 2015, the Company filed a notice of appeal of the Outstanding Judgment with the Delaware Supreme Court. On October 7, 2015, the Delaware Supreme Court heard oral argument, en banc. On December 23, 2015 the Delaware Supreme Court affirmed the Outstanding Judgment (the "Delaware Supreme Court Affirmation") The Outstanding Judgment award will be satisfied in accordance with the Plan as described above.

### Lead Product - TPOXX®

On May 13, 2011, SIGA signed the BARDA Contract pursuant to which we agreed to deliver two million courses of TPOXX® to the Strategic Stockpile. The BARDA Contract is worth approximately \$472 million, including \$409.8 million for manufacture and delivery of 1.7 million courses of TPOXX® and \$62 million of potential reimbursements related to development and supportive activities (the "Base Contract"). Under the Base Contract, BARDA has agreed to buy from SIGA 1.7 million courses of TPOXX®. Additionally, SIGA expects to contribute to BARDA 300,000 courses at no additional cost to BARDA.

In addition to the Base Contract, the BARDA Contract also contains various options that, if exercisable at BARDA: would result in a \$50 million payment to the Company in the event of FDA approval for extension to 84-month expiry for TPOXX® (from 38 month expiry as required in the Base Contract); would fund up to \$58.3 million of development and supportive activities such as work on a smallpox prophylaxis indication for TPOXX®; and/or would fund \$14.4 million of production-related activities related to warm-base manufacturing. In 2015, BARDA exercised two options related to extending the indication of the drug to the geriatric and pediatric populations. The stated value of these exercises was minimal. BARDA may not exercise additional options in the future. Options are exercisable by BARDA at its sole discretion. BARDA has indicated that it will evaluate, after the FDA's review and evaluation of stability data, the Company's request that BARDA exercise the option for the \$50 million payment to the Company in the event of FDA approval of 84-month expiry for TPOXX®.

The BARDA Contract expires in September 2020.

For courses of TPOXX® that are physically delivered to the Strategic Stockpile, the Company has replacement obligations, at no cost to BARDA, in the event that the final version of TPOXX® approved by the U.S. Food and Drug Administration (the "FDA") is different from any course of TPOXX® that has been delivered to the Strategic Stockpile or if TPOXX® does not meet any specific label claims, fails release testing or does not meet 38 month expiry period (from time of delivery to the Strategic Stockpile), or if TPOXX® is recalled or deemed to be recalled for any reason.

We believe TPOXX® is among the first new small-molecule drugs delivered to the Strategic Stockpile under Project BioShield. TPOXX® is an investigational product that is not currently approved by FDA as a treatment of smallpox or any other indication. FDA has designated TPOXX® for "fast-track" status, creating a path for expedited FDA review and eventual regulatory approval.

### Critical Accounting Estimates

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our consolidated financial statements, which we discuss under the heading “Results of Operations” following this section of our Management’s Discussion and Analysis of Financial Condition and Results of Operations. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include the valuation of stock-based awards including options, revenue recognition, valuation of the liability classified Warrant, income taxes and contingencies. Information regarding our critical accounting policies and estimates appear in item 7, Management’s Discussion of Analysis and Financial Condition and Results of Operations, of our Annual Report on form 10-K for the year-ended December 31, 2015, as filed on March 4, 2016. During the three months ended September 30, 2016 there were no significant changes to any critical accounting policies or to the related estimates and judgments involved in applying these policies.

Table of Contents

Results of Operations

Three and nine months ended September 30, 2016 and 2015

Revenues from research and development contracts and grants for the three months ended September 30, 2016 and 2015, were \$4.7 million and \$1.3 million, respectively. The increase in revenue of \$3.3 million, or 250.9%, reflects a \$3.5 million increase in revenues from our federal contracts supporting the development of TPOXX®, partially offset by a \$149,000 decrease in revenues from our grant revenues supporting research related to dengue fever. Revenues from federal contracts supporting the development of TPOXX® have increased because active studies involving TPOXX® have increased in number and scale in comparison to prior year activity.

Revenues from research and development contracts and grants for the nine months ended September 30, 2016 and 2015, were \$7.8 million and \$4.0 million, respectively. The increase in revenue of \$3.8 million, or 96.4%, is attributable to a \$4.6 million increase in revenues from our federal contracts supporting the development of TPOXX®, partially offset by a \$783,000 decrease in revenues from our grant revenues supporting research related to dengue fever. Revenues from federal contracts supporting the development of TPOXX® have increased because active studies involving TPOXX® have increased in number and scale in comparison to prior year activity.

Selling, General and Administrative expenses ("SG&A") for the three months ended September 30, 2016 and 2015, were \$2.9 million and \$2.3 million, respectively, reflecting an increase of \$530,000, or 23%. The increase is primarily attributable to: an increase of \$411,000 in the annual incentive compensation accrual and an increase of approximately \$160,000 in professional services fees in connection with strategic initiatives related to satisfaction of the PharmAthene liability; and is partially offset by a decrease of \$151,000 in non-cash stock-based compensation expenses.

SG&A expenses for the nine months ended September 30, 2016 and 2015, were \$9.3 million and \$8.0 million, respectively, reflecting an increase of \$1.3 million, or 16.1%. The increase is primarily attributable to: an increase of \$1.2 million in professional service fees in connection with strategic initiatives and an increase of \$362,000 in the annual incentive compensation accrual; and is partially offset by a decrease of \$537,000 in non-cash stock-based compensation expense.

Research and Development expenses ("R&D") for the three months ended September 30, 2016 and 2015 were \$6.1 million and \$2.4 million, respectively, reflecting an increase of \$3.6 million, or 150.1%. The increase is attributable to: an increase of \$3.4 million in direct vendor-related expenses supporting the development of TPOXX® and an increase of \$285,000 in the annual incentive compensation accrual. Vendor-related expenses have increased as the number and scale of active studies has increased.

R&D expenses for the nine months ended September 30, 2016 and 2015 were \$11.6 million and \$8.2 million, respectively, reflecting an increase of \$3.4 million or 41%. The increase is attributable to an increase of \$4.4 million in direct vendor-related expenses supporting the development of TPOXX® and an increase of \$240,000 in the annual incentive compensation accrual. These increases were partially offset by: a \$605,000 decrease in direct vendor-related expenses supporting research for the dengue antiviral drug candidate; a \$298,000 write-off of leasehold improvements; and a \$178,000 reduction in rent expense. The write-off of leasehold improvements, as well as the decrease in rent expense, is related to the relinquishment of the second floor space, in 2015, at the research and development facility in Corvallis, Oregon. Vendor-related expenses have increased as the number and scale of active studies has increased.

Patent expenses for the three and nine months ended September 30, 2016 were \$230,000 and \$690,000, respectively. Patent expenses for the three and nine months ended September 30, 2015 were \$194,000 and \$763,000, respectively.

These expenses reflect our ongoing efforts to protect our lead drug candidates in varied geographic territories.

Interest expense on the PharmAthene liability for the three and nine months ended September 30, 2016 was \$3.6 million and \$7.4 million, respectively. These amounts represent interest expense incurred subsequent to the Effective Date of the Plan.

Changes in the fair value of liability classified Warrant are recorded as gains or losses on the statement of operations. For the three and nine months ended September 30, 2016, we recorded a loss of \$1.1 million. See Notes 4 and 13 to the consolidated financial statements for further information.

Interest expense for the three and nine months ended September 30, 2016 was \$95,000 and \$105,000, respectively. Interest expense for the three and nine months ended September 30, 2015 was zero and \$267,000, respectively. Interest expense for the three and nine months ended September 30, 2016 includes \$95,000 of transaction-related costs allocated to the September 2016

## Table of Contents

warrant issuance. On January 16, 2015, the Company fully paid a fully-secured term loan provided by General Electric Corporation, including fees incurred in connection with the termination of the term loan.

Reorganization expenses for the three and nine months ended September 30, 2016 were zero and \$3.7 million, respectively. Reorganization expenses for three and nine months ended September 30, 2015 were \$1.9 million and \$5.9 million, respectively. These expenses were incurred in connection with the chapter 11 case. The Company emerged from chapter 11 of the Bankruptcy Code on April 12, 2016. Expenses related to the implementation of the chapter 11 Plan, but subsequent to April 12 are recorded in SG & A. See Note 1 to the financial statements for additional information.

For the three and nine months ended September 30, 2016, we incurred pre-tax losses of \$9.2 million and \$29.4 million and a corresponding income tax benefit and (expense) of \$4,000 and \$(8,700), respectively. The effective tax rate during the three and nine months ended September 30, 2016 were 0.04 % and (0.03) % respectively. Our effective tax rate for the period ended September 30, 2016 differs from the statutory rate as no income tax benefit was recorded for current year operating losses due to the Company's assessment regarding tax realizability of its deferred tax assets. For the three and nine months ended September 30, 2015, we incurred pre-tax losses of \$5.6 million and \$19.1 million and corresponding income tax expense of \$0.1 million and \$0.2 million, respectively.

The recognition of a valuation allowance for deferred taxes requires management to make estimates and judgments about our future profitability which are inherently uncertain. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. If the current estimates of future taxable income change, the Company's assessment regarding the realization of deferred tax assets could change. Future changes in the estimated amount of deferred taxes expected to be realized will be reflected in the Company's financial statements in the period the estimate is changed with a corresponding adjustment to operating results. Changes in estimates may occur often and can have a significant favorable or unfavorable impact on the Company's operating results from period to period.

## Liquidity and Capital Resources

As of September 30, 2016, the Company had \$20.5 million in cash and cash equivalents compared with \$112.7 million at December 31, 2015. As discussed herein, the Company used cash to satisfy, in part, the PharmAthene Judgment and received cash in connection with the BARDA Contract. In July 2016, the Company paid PharmAthene \$20 million, which has been applied against the amount owed to PharmAthene, and is otherwise nonrefundable. Also in July 2016, the Company received \$32.6 million from BARDA as a result of the BARDA Contract Modification (see Note 3 for a detailed discussion of the BARDA Contract Modification). In August 2016 the Company received \$21.3 million from BARDA for the product delivery of TPOXX® courses to the Strategic Stockpile and \$20.5 million from BARDA for meeting a milestone (see Note 3 for a detailed discussion of the BARDA Contract Modification). In September 2016, the Company paid \$90 million against the PharmAthene liability. In October 2016, the Company received \$36.8 million from BARDA for the product delivery of TPOXX® courses to the Strategic Stockpile (this amount was recorded in accounts receivable at September 30, 2016). Also in October 2016, the Company paid another \$10 million against the PharmAthene liability.

There can be no assurance that cash on hand, cash generated from the BARDA contract and other operations, cash generated from asset sales or financings, and other available funds will be sufficient to satisfy the PharmAthene liability, which represents a liability of \$93.7 million as of September 30, 2016. The PharmAthene liability, combined with the uncertainty attendant to the impact of the Rights Offering and Term Loan, raise substantial doubt about the Company's ability to continue as a going concern. On October 21, 2016, the Company commenced the Rights Offering for \$35.3 million of gross proceeds. As stated in the prospectus for the Rights Offering, completion of the Rights Offering is conditioned upon the closing of a debt financing such as the Term Loan and, in turn, closing of both



the Rights Offering and the Term Loan is conditioned on the Company having sufficient cash (after the consummation of the Rights Offering and Term Loan) to fully pay the PharmAthene claim and, in the case of the Term Loan, having at least \$15 million of cash and equivalents subsequent to the full payment of the PharmAthene claim. There can be no assurance that the Company will be able to finalize either the aforementioned Rights Offering or Term Loan, on satisfactory terms or at all. In addition, there can be no assurance that the Company will be able to satisfy the PharmAthene claim with, or without, the use of the Rights Offering or Term Loan (other than through the cancellation of all of the currently outstanding shares of the Company and the granting of new shares to PharmAthene, representing all of the equity of the Company, as provided for under the Plan).

## Table of Contents

Pursuant to the Plan, the Company has a specified period of time to either satisfy the PharmAthene liability in full or otherwise agree with PharmAthene as to how the PharmAthene liability will be satisfied. If neither of these events occur, then under the Plan the Company must deliver to PharmAthene new shares of stock representing 100% of the stock of the Company, with all existing shares being cancelled and the holders thereof receiving no consideration (see Note 1 to the financial statements for a detailed discussion).

### Change in Provisional Dosage of TPOXX®

As discussed in Note 3 to the financial statements, the Company expects to incur significant production costs due to the change in provisional dosage of TPOXX®.

### Operating Activities

Net cash (used in) provided by operations for the nine months ended September 30, 2016 and 2015 was \$(92.2) million and \$27.6 million, respectively. Cash usage is primarily related to: \$115 million of payments made to PharmAthene (to be applied against the PharmAthene liability); \$7.5 million of interest payments that have been made to PharmAthene during the nine months ended September 30, 2016; recurring operating costs; costs attendant to the Loan Agreement and Rights Offering, and the administration of the chapter 11 case; pre-petition claim payments; \$23 million of payments to contract manufacturing organizations ("CMOs") for the manufacture and related support of TPOXX®. These amounts are partially offset by \$74.3 million of cash received from BARDA for product deliveries of TPOXX® and achieving a milestone under the BARDA contract. During the nine months ended September 30, 2015, the Company received approximately \$50.9 million from BARDA for the product delivery of TPOXX®. This amount was partially offset by cash usage is related to recurring costs and is elevated primarily due to costs attendant to the administration of the Company's chapter 11 case and expenses related to the PharmAthene litigation. Additionally, there were \$2.1 million of payments to CMOs for the manufacture of TPOXX®.

### Investing Activities

Net cash (used in) provided by investing activities for the nine months ended September 30, 2016 and 2015 were \$(11,000) and \$4.0 million, respectively. For the nine months ended September 30, 2016, cash used relates to capital expenditures. During the first quarter of 2015, the Company paid the GE term loan in full and the collateral on the \$4 million restricted cash was released and the restricted cash was reclassified to the cash and cash equivalent.

### Financing Activities

Net cash used by financing activities for the nine months ended September 30, 2015 were \$2.0 million. During the nine months ended September 30, 2015, the Company repaid the GE term loan in full.

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

### Recently Issued Accounting Standards

For discussion regarding the impact of accounting standards that were recently issued but not yet effective, on the Company's condensed consolidated financial statements, see Notes to Condensed Consolidated Financial Statements, Note 13 - Recently Issued Accounting Standards.

## Table of Contents

### Safe Harbor Statement

Certain statements in this Quarterly Report on Form 10-Q, including certain statements contained in “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, including statements relating to the progress of SIGA’s development programs and time lines for bringing products to market, the enforceability of the BARDA Contract, proposed actions or plans related to or arising from the loss of SIGA’s litigation with PharmAthene and the treatment of PharmAthene’s claim under SIGA’s Plan. Such forward-looking statements are subject to various known and unknown risks and uncertainties and SIGA cautions you that any forward-looking information provided by or on behalf of SIGA is not a guarantee of future performance. SIGA’s actual results could differ materially from those anticipated by such forward-looking statements due to a number of factors, some of which are beyond SIGA’s control, including, but not limited to, (i) the risk that potential products that appear promising to SIGA or its collaborators cannot be shown to be efficacious or safe in subsequent pre-clinical or clinical trials, (ii) the risk that SIGA or its collaborators will not obtain appropriate or necessary governmental approvals to market these or other potential products, (iii) the risk that SIGA may not be able to obtain anticipated funding for its development projects or other needed funding, including from anticipated governmental contracts and grants (iv) the risk that SIGA may not complete performance under the BARDA Contract on schedule or in accordance with contractual terms, (v) the risk that SIGA may not be able to secure or enforce sufficient legal rights in its products, including intellectual property protection, (viii) the risk that any challenge to SIGA’s patent and other property rights, if adversely determined, could affect SIGA’s business and, even if determined favorably, could be costly, (ix) the risk that regulatory requirements applicable to SIGA’s products may result in the need for further or additional testing or documentation that will delay or prevent seeking or obtaining needed approvals to market these products, (x) the risk that one or more protests could be filed and upheld in whole or in part or other governmental action taken, in either case leading to a delay of performance under the BARDA Contract or other governmental contracts, (xi) the risk that the BARDA Contract is modified or canceled at the request or requirement of the U.S. government, (xii) the risk that the volatile and competitive nature of the biotechnology industry may hamper SIGA’s efforts to develop or market its products, (xiii) the risk that changes in domestic and foreign economic and market conditions may affect SIGA’s ability to advance its research or may affect its products adversely, (xiv) the effect of federal, state, and foreign regulation, including drug regulation and international trade regulation, on SIGA’s businesses, and (xv) the risk that we may be unable to satisfy the judgment in favor of PharmAthene other than by giving PharmAthene all the equity in SIGA. All such forward-looking statements are current only as of the date on which such statements were made. SIGA does not undertake any obligation to update publicly any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of anticipated events.

More detailed information about SIGA and risk factors that may affect the realization of forward-looking statements, including the forward-looking statements in this presentation, is set forth in SIGA’s filings with the Securities and Exchange Commission, including this Quarterly Report on Form 10-Q and SIGA’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and in other documents that SIGA has filed with the SEC. SIGA urges investors and security holders to read those documents free of charge at the SEC’s Web site at <http://www.sec.gov>. Forward-looking statements are current only as of the date on which such statements were made, and except for our ongoing obligations under the United States of America federal securities laws, we undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events, or otherwise.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our investment portfolio may include cash, cash equivalents and short-term investments. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. We believe that our investment policy is conservative, both in the duration of our investments and the credit

quality of the investments we hold. We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions to manage exposure to interest rate changes. Accordingly, we believe that, while the securities we hold are subject to changes in the financial standing of the issuer of such securities and our interest income is sensitive to changes in the general level of U.S. interest rates, we are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934. Management recognizes that any disclosure controls and procedures no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on that evaluation, our Chief Executive Office and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2016 at a reasonable level of assurance.

##### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In December 2006, PharmAthene filed an action against us in the Delaware Court of Chancery captioned PharmAthene, Inc. v. SIGA Technologies, Inc., C.A. No. 2627-VCP. In its amended complaint, PharmAthene asked the Court to order us to enter into a license agreement with PharmAthene with respect to TPOXX®, to declare that we are obliged to execute such a license agreement, and to award damages resulting from our alleged breach of that obligation. PharmAthene also alleged that we breached an obligation to negotiate such a license agreement in good faith, and sought damages for promissory estoppel and unjust enrichment based on information, capital, and assistance that PharmAthene allegedly provided to us during the negotiation process.

In September 2011, the Court of Chancery issued its post-trial opinion. The Court denied PharmAthene's requests for specific performance and expectation damages measured by present value of estimated future profits. Nevertheless, the Court held that we breached our duty to negotiate in good faith and were liable under the doctrine of promissory estoppel. The Court consequently awarded to PharmAthene what the Court described as an equitable payment stream or equitable lien consisting of fifty percent of the net profits that the Company achieves from sales of ST-246 after securing \$40 million in net profits, for ten years following the first commercial sale. In addition, the Court awarded PharmAthene one-third of its reasonable attorneys' fees and expert witness expenses of \$2.4 million.

In May 2012, the Court of Chancery entered its final order and judgment, implementing its post-trial opinion.

In June 2012, the Company appealed to the Delaware Supreme Court the final order and judgment and certain earlier rulings of the Court of Chancery. Shortly thereafter, PharmAthene filed its cross-appeal. The Company obtained a stay of enforcement of the fee and expense portion of the judgment by filing a surety bond for the amount of the judgment plus post-judgment interest. We posted \$1.3 million of cash as approximately 50% collateral for a \$2.7 million surety bond. The \$1.3 million of cash collateral is recorded in other assets as of September 30, 2016.

On May 24, 2013, the Supreme Court of Delaware issued its decision, affirming the Delaware Court of Chancery's judgment in part, reversing it in part, and remanding to Court of Chancery.

On August 8, 2014, the Court of Chancery issued its Remand Opinion. In its Remand Opinion, the Court of Chancery reversed its earlier conclusions and held that PharmAthene had carried its burden of demonstrating its entitlement to lump sum expectation damages for lost profits related to TPOXX® by a preponderance of the evidence.

On September 16, 2014, as a consequence of SIGA's chapter 11 filing, the legal proceedings with PharmAthene were stayed (see Note 1 to the financial statements). On October 8, 2014, the Bankruptcy Court approved a Stipulation between the Company and PharmAthene partially lifting the stay to permit the litigation before the Delaware Chancery Court to proceed, including all appeals. The Stipulation, however, provides that the stay shall remain in effect with respect to the enforcement of any judgment that may be entered.

On January 15, 2015, the Delaware Court of Chancery entered its Final Order and Judgment, awarding to PharmAthene \$113,116,985 in contract expectation damages, plus pre-judgment interest up to January 15, 2015, and certain permitted legal fees, costs, and expenses, for a judgment of \$194,649,042. Pursuant to the Final Order and Judgment, SIGA also is liable to PharmAthene for post-judgment interest, which was specified in the Final Order and Judgment to be \$30,663.89, per diem, such per diem amount to be periodically adjusted to reflect the applicable Delaware legal rate.

On January 16, 2015, the Company appealed from certain portions of the Delaware Court of Chancery's rulings on remand, including but not limited to the Final Order and Judgment, to the Delaware Supreme Court.

On October 7, 2015, the Delaware Supreme Court heard oral argument, en banc. On December 23, 2015, the Delaware Supreme Court affirmed the Final Order and Judgment (the "Delaware Supreme Court Affirmation").

As of September 30, 2016, the accrued obligation under the Delaware Court of Chancery Final Order and Judgment, including post-judgment and Plan-specified interest, is estimated to be approximately \$93.7 million. As specified in the Plan, starting at the Effective Date of the Plan, interest accrues at an annual rate of 8.75% against the amount owed to PharmAthene. The accrued obligation includes a \$3.2 million reimbursement obligation to PharmAthene for attorney's fees and expert expenses related to the case. The Final Order and Judgment will be satisfied in accordance with the Plan as described in Note 1 to the financial statements.

Table of Contents

From time to time, the Company is involved in disputes or legal proceedings arising in the ordinary course of business. The Company believes that there is no dispute or litigation pending, except as discussed above, that could have, individually or in the aggregate, a material adverse effect on its financial position, results of operations or cash flows.

Item 1A. Risk Factors

Our results of operations and financial conditions are subject to numerous risks and uncertainties described in our 2015 Annual Report on Form 10-K for the fiscal year-ended December 31, 2015.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

No disclosure is required pursuant to this item.

Item 5. Other Information

None.

27

---



Item 6. Exhibits

Exhibit No.	Description
10.1	Amended and Restated Employment Agreement, dated August 1, 2016, between SIGA Technologies, Inc. and Robin E. Abrams (incorporated by reference to the Current Report on Form 8-K of the Company filed on August 2, 2016).
10.2	Loan and Security Agreement, dated as of September 2, 2016, by and among SIGA Technologies, Inc., OCM Strategic Credit SIGTEC Holdings, LLC, Cortland Capital Market Services LLC, in its capacity as administrative agent and collateral agent, OCM Strategic Credit SIGTEC Holdings, LLC, as sole lead arranger, and each of the other persons who are or thereafter become parties to the Loan Agreement as guarantors(incorporated by reference to the Current Report on Form 8-K of the Company filed on September 7, 2016).
10.3	Warrant, dated as of September 2, 2016, by the Company in favor of OCM Strategic Credit SIGTECH Holdings, LLC or its registered assigns (incorporated by reference to the Current Report on Form 8-K of the Company filed on September 7, 2016).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

SIGA TECHNOLOGIES,  
INC.  
(Registrant)

Date: November 2, 2016 By: /s/ Daniel J. Luckshire  
Daniel J. Luckshire  
Executive Vice  
President and  
Chief Financial Officer  
(Principal Financial  
Officer and  
Principal Accounting  
Officer)