

SIGA TECHNOLOGIES INC  
Form 10-Q  
August 05, 2013  
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 June 30, 2013

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

common stock, \$.0001 par value

Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:

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 .

As of July 15, 2013 the registrant had outstanding 52,483,514 shares of common stock.

---

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</u>	<u>2</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>17</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>18</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>19</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>19</u>
<u>Item 2.</u> <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	<u>19</u>
<u>Item 3.</u> <u>Defaults upon Senior Securities</u>	<u>19</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>19</u>
<u>Item 5.</u> <u>Other Information</u>	<u>19</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>19</u>
<u>SIGNATURES</u>	<u>20</u>

---

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1 - Condensed Consolidated Financial Statements

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

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$32,962,728	\$32,017,490
Accounts receivable	622,789	970,288
Receivables from long term contract	57,597,172	—
Inventory	18,452,502	17,641,922
Prepaid expenses and other current assets	930,507	801,149
Deferred tax assets	35,047,827	33,515,327
Total current assets	145,613,525	84,946,176
Property, plant and equipment, net	1,143,651	987,869
Receivables from long-term contract	—	3,771,219
Deferred costs	14,234,754	2,841,534
Goodwill	898,334	898,334
Other assets	2,202,294	2,181,720
Deferred tax assets, net	12,921,556	10,209,278
Total assets	\$177,014,114	\$105,836,130
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$16,258,393	\$10,189,917
Accrued expenses and other current liabilities	5,502,750	4,283,849
Common stock warrants	243,199	333,793
Current portion of long term debt	8,958,725	954,738
Total current liabilities	30,963,067	15,762,297
Deferred revenue	119,069,235	57,052,020
Common stock warrants	249,558	657,246
Long term debt	2,976,924	3,955,262
Other liabilities	348,135	166,303
Total liabilities	153,606,919	77,593,128
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock (\$.0001 par value, 100,000,000 shares authorized, 52,396,497 and 51,642,520 issued and outstanding at June 30, 2013, and December 31, 2012, respectively)	5,240	5,164
Additional paid-in capital	170,689,389	167,588,374
Accumulated deficit	(147,287,434)	(139,350,536)
Total stockholders' equity	23,407,195	28,243,002
Total liabilities and stockholders' equity	\$177,014,114	\$105,836,130

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

2

---

Table of Contents

## SIGA TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/LOSS  
(UNAUDITED)

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Revenues				
Research and development	\$964,667	\$2,701,164	\$2,293,031	\$4,166,916
Operating expenses				
Selling, general and administrative	3,166,149	3,474,691	6,197,499	5,688,568
Research and development	3,130,701	5,182,516	6,776,169	9,647,054
Patent preparation fees	300,581	376,320	758,736	712,618
Total operating expenses	6,597,431	9,033,527	13,732,404	16,048,240
Operating loss	(5,632,764 )	(6,332,363 )	(11,439,373 )	(11,881,324 )
Decrease (increase) in fair value of common stock warrants	980,289	904,731	6,090	(94,798 )
Interest expense	(376,323 )	—	(749,878 )	—
Other income, net	1,382	74	1,485	236
Loss before income taxes	(5,027,416 )	(5,427,558 )	(12,181,676 )	(11,975,886 )
Benefit from (provision for) income taxes	1,966,336	1,660,720	4,244,778	—3,593,439
Net income (loss)	\$(3,061,080 )	\$(3,766,838 )	\$(7,936,898 )	\$(8,382,447 )
Earnings (loss) per share: basic and diluted	\$(0.06 )	\$(0.07 )	\$(0.15 )	\$(0.16 )
Weighted average shares outstanding: basic and diluted	52,214,824	51,638,352	51,965,868	51,638,061
Net income (loss)	\$(3,061,080 )	\$(3,766,838 )	\$(7,936,898 )	\$(8,382,447 )
Change in net unrealized gain (loss) on short-term investments	—	—	—	(4,067 )
Comprehensive income (loss)	\$(3,061,080 )	\$(3,766,838 )	\$(7,936,898 )	\$(8,386,514 )

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

Table of Contents

## SIGA TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(7,936,898	) \$(8,382,447 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and other amortization	202,759	208,973
Increase (decrease) in fair value of warrants	(6,090	) 94,798
Stock based compensation	1,160,572	956,883
Amortization of debt discount	25,649	—
Changes in assets and liabilities:		
Accounts receivable	(53,478,454	) (881,827 )
Inventory	(810,580	) (8,859,970 )
Deferred costs	(11,393,220	) (1,687,599 )
Prepaid expenses	8,402	(185,161 )
Other assets	93,063	7,501
Deferred income taxes, net	(4,244,778	) (3,593,439 )
Accounts payable, accrued expenses and other liabilities	7,469,209	7,598,090
Deferred revenue	62,017,215	1,991,499
Net cash provided by (used in) operating activities	(6,893,151	) (12,732,699 )
Cash flows from investing activities:		
Capital expenditures	(358,541	) (245,189 )
Collateral for surety bond	—	(1,347,956 )
Net cash provided by (used in) investing activities	(358,541	) (1,593,145 )
Cash flows from financing activities:		
Net proceeds from exercise of warrants and options	1,375,023	1,690
Payment of common stock tendered for employee tax obligations	(178,093	) —
Proceeds from the issuance of debt	7,000,000	—
Net cash provided by (used in) financing activities	8,196,930	1,690
Net increase (decrease) in cash and cash equivalents	945,238	(14,324,154 )
Cash and cash equivalents at beginning of period	32,017,490	49,256,930
Cash and cash equivalents at end of period	\$32,962,728	\$34,932,776
Supplemental disclosure of non-cash financing activities:		
Reclass of common stock warrant liability to additional paid-in capital upon warrant exercise	\$492,191	\$—
Remaining grant-date fair value of warrants recorded as other assets	\$251,397	\$—

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

SIGA TECHNOLOGIES, INC.  
NOTES TO CONDENSED 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, 2012, included in the 2012 Annual Report on Form 10-K/A. All terms used but not defined elsewhere herein have the meaning ascribed to them in the Company’s 2012 Annual Report on Form 10-K/A filed on May 14, 2013. 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 2012 year-end 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 six months ended June 30, 2013 are not necessarily indicative of the results expected for the full year.

The financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As of July 31, 2013, the Company has delivered an aggregate of approximately 590,000 courses of Arestvyr™ (tecovirimat), also known as ST-246®, to the U.S. Strategic National Stockpile (the “Strategic Stockpile”). As a result, SIGA has met a key requirement of its procurement contract with the Biomedical Advanced Research and Development Authority (“BARDA”) (refer to Note 2) and expects to receive payment of approximately \$79 million in the third quarter of 2013 for the courses of product delivered to date. Management believes that the funds expected to be generated from its procurement contract, together with existing capital resources and continuing government grants and contracts, will be sufficient to support its operations beyond the next twelve months.

2. Procurement Contract and Research Agreements

Procurement Contract

In May 2011, the Company signed a contract with BARDA (the “BARDA Contract”) pursuant to which SIGA agreed to deliver two million courses of Arestvyr to the Strategic Stockpile. The base contract, worth approximately \$463 million, includes \$54 million related to development and supportive activities and contains various options to be exercised at BARDA’s discretion. The period of performance for development and supportive activities runs until 2020. As originally issued, the BARDA Contract included an option for the purchase of up to 12 million additional courses of Arestvyr; however, following a protest by a competitor of the Company, BARDA issued a contract modification on June 24, 2011 pursuant to which it deleted the option to purchase the additional courses. Under the BARDA Contract as modified, BARDA has agreed to buy from SIGA 1.7 million courses of Arestvyr. Additionally, SIGA will contribute to BARDA 300,000 courses manufactured primarily using federal funds provided by the U.S. Department of Health and Human Services (“HHS”) under prior development contracts. The BARDA Contract as modified also contains options that will permit SIGA to continue its work on pediatric and geriatric versions of the drug as well as use Arestvyr for smallpox prophylaxis. As described in Note 12, the amount of profits SIGA will retain pursuant to the BARDA Contract is subject to the outcome of the litigation in Delaware between SIGA and PharmAthene.

In the fourth quarter of 2011, SIGA received approximately \$41 million in advance payments under the BARDA Contract. In October 2012, SIGA received FDA concurrence with respect to its product labeling strategy in accordance with the BARDA Contract and during the fourth quarter of 2012, the Company received the related



milestone payment of approximately \$12.3 million. In May 2013, BARDA notified SIGA that the Company had successfully completed the milestone requirements for the Final Drug Product Commercial Validation batches and report and during the second quarter of 2013, the Company received the related milestone payment of approximately \$8.2 million.

The BARDA Contract is a multiple deliverable arrangement including 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. Furthermore, payment for delivered courses and reimbursement of amounts the Company spends on covered research services were not contractually due to commence until after the Company delivered the first 500,000 courses. Accordingly the Company has deferred revenue for all amounts under the BARDA Contract received to date. With the delivery of more than 500,000 courses, the Company expects to begin to recognize revenue

## Table of Contents

in the third quarter of 2013 with respect to BARDA's obligation to reimburse the cost of covered research and development services. Cash inflows related to procurement activities are expected to continue to be recorded as deferred revenue. In addition, direct costs incurred by the Company to fulfill the requirements 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 June 30, 2013 and December 31, 2012, deferred direct costs under the BARDA Contract of approximately \$14.2 million and \$2.8 million, respectively, are included in deferred costs on the consolidated balance sheets. As of June 30, 2013, the Company recorded \$57.6 million as receivables from long term contract and deferred revenue, respectively, for the delivery of approximately 390,000 courses of Arestvyr to the Strategic Stockpile in March and May 2013 and research and development services provided since inception of the BARDA Contract.

In July 2013, the Company delivered approximately 200,000 courses of Arestvyr to the Strategic Stockpile. With the cumulative delivery of 590,000 courses, SIGA has invoiced BARDA for approximately \$79 million for delivered product and approximately \$5 million for research and development services. The Company expects to receive payment during the third quarter.

### 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. In addition to the BARDA Contract, the Company currently has one contract and two grants with varying expiration dates through July 2016 that provide for potential future aggregate research and development funding for specific projects of approximately \$16.4 million. This amount includes, among other things, options that may or may not be exercised at the U.S. government's discretion. Moreover, the contract and grants contain customary terms and conditions including the U.S. Government's right to terminate or restructure a grant for convenience at any time.

### 3. Equity and Financial Instruments

On June 30, 2013, the Company's authorized share capital consisted of 110,000,000 shares, of which 100,000,000 are designated common shares and 10,000,000 are designated preferred shares. The Company's Board of Directors is authorized to issue preferred shares in series with rights, privileges and qualifications of each series determined by the Board.

At June 30, 2013 and December 31, 2012, the fair market value of outstanding warrants recorded as liabilities was \$492,757 and \$991,039 (revised), respectively. The Company applied the Black-Scholes model to calculate the fair values of the respective derivative instruments using the contractual term of the warrants. Management estimates the expected volatility using a combination of the Company's historical volatility and the volatility of a group of comparable companies.

For the three months ended June 30, 2013 and June 30, 2012, the Company recorded gains of \$980,289 and \$904,731 (revised), respectively, as a result of net decreases in fair value for warrants outstanding during the respective periods.

On April 30, 2013, SIGA entered into a Services Agreement with M&F for certain professional and administrative services. The Services Agreement has a term of three years. As consideration for the Services Agreement, SIGA issued warrants to M&F to acquire 250,000 shares of common stock at an exercise price of \$3.29 per share. The warrants are fully vested, immediately exercisable and remain exercisable for two years from issuance. As the warrants are immediately exercisable, the grant-date fair value, determined using the Black-Scholes model as previously described, is recorded as an asset with a corresponding increase to equity. The asset is amortized over the

contractual term of the warrant.

#### 2008 Financing

On June 19, 2008, SIGA entered into a letter agreement (as amended, the "Letter Agreement") that expired on June 19, 2010, with MacAndrews & Forbes LLC ("M&F"), a related party, for M&F's commitment to invest, at SIGA's discretion or at M&F's option, up to \$8 million in exchange for (i) SIGA common stock and (ii) warrants to purchase 40% of the number of SIGA shares acquired by M&F. In consideration for the commitment of M&F reflected in the Letter Agreement, on June 19, 2008, M&F received warrants to purchase 238,000 shares of SIGA common stock, initially exercisable at \$3.06 (the "Commitment Warrants"). The Commitment Warrants were subject to anti-dilution adjustments and exercisable until June 19, 2012. On June 19, 2012, the Commitment Warrants were amended to extend expiration to June 19, 2014. Due to certain anti-dilution provisions, the Commitment Warrants are recorded as a liability, and consequently the "mark-to-market" adjustment to the fair value from the extended term was accounted for immediately upon modification.

In 2009, SIGA issued to M&F 816,993 shares of common stock and 326,797 warrants to acquire common stock in exchange for total proceeds of \$2.5 million. The warrants are exercisable for a term of four years from issuance and had an exercise price of

Table of Contents

\$3.519 per share, prior to anti-dilution adjustments. On April 29, 2013, 202,451 of the aforementioned warrants issued in 2009 expired.

On June 18, 2010, M&F notified SIGA of its intention to exercise its right to invest \$5.5 million, the remaining amount available under the Letter Agreement following earlier investments and entered into a Deferred Closing and Registration Rights Agreement dated as of June 18, 2010 with the Company. On July 26, 2010, upon satisfaction of certain customary closing conditions, including the expiration of the applicable waiting period pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, M&F funded the \$5.5 million purchase price to SIGA in exchange for the issuance of (i) 1,797,386 shares of common stock and (ii) warrants to purchase 718,954 shares of SIGA common stock at an exercise price of \$3.519 per share; the warrants are exercisable for a term of four years from issuance.

The number of shares issuable pursuant to the warrants granted under the Letter Agreement, as well as the exercise price of those warrants, may be subject to adjustment as a result of the effect of future equity issuances on certain anti-dilution provisions in the related warrant agreements.

2006 Placements

In 2006, the Company issued 1,000,000 warrants with an initial exercise price of \$4.99 per share (the "2006 Warrants"). The 2006 Warrants may be exercised through and including October 19, 2013. At June 30, 2013 and December 31, 2012, 407,784 and 815,568, respectively, of the 2006 Warrants at an exercise price of \$2.92 were outstanding. In March 2013, 407,784 of the 2006 Warrants were exercised. The number of shares issuable pursuant to the Warrants may be subject to further adjustment as a result of the effect of future equity issuances on anti-dilution provisions in the related warrant agreements.

4. Per Share Data

The objective of basic earnings per share ("EPS") is to measure the performance of an entity over the reporting period by dividing income (loss) by the weighted average shares outstanding. The objective of diluted EPS is consistent with that of basic EPS, except that it also gives effect to all potentially dilutive common shares outstanding during the period.

The following is a reconciliation of the basic and diluted net income (loss) per share computation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012 (Revised)	2013	2012 (Revised)
Net income (loss) for basic and diluted EPS	\$(3,061,080 )	\$(3,766,838 )	\$(7,936,898 )	\$(8,382,447 )
Weighted-average shares for basic and diluted	52,214,824	51,638,352	51,965,868	51,638,061
Earnings (loss) per share for basic and diluted	\$(0.06 )	\$(0.07 )	\$(0.15 )	\$(0.16 )

The Company incurred losses for the three and six months ended June 30, 2013 and 2012 and as a result, certain equity instruments are excluded from the calculation of diluted earnings (loss) per share as the effect of such shares is anti-dilutive. The weighted average number of equity instruments excluded consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock Options	2,799,122	2,830,810	2,809,465	2,815,345
Stock-Settled Stock Appreciation Rights	447,156	461,462	449,423	377,913
Restricted Stock Units	977,409	372,637	990,240	240,824
Warrants	1,875,743	2,253,902	2,034,477	2,273,281

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.

7

---

Table of Contents

## 5. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts payable and accrued expenses approximates fair value due to the relatively short maturity of these instruments. Common stock warrants which are classified as liabilities are recorded at their fair market value as of each reporting period.

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 uses model-derived valuations where inputs are observable in active markets to determine the fair value of certain common stock warrants on a recurring basis and classify such warrants in Level 2. The Company utilizes the Black-Scholes model consisting of the following variables: (i) the closing price of SIGA's common stock; (ii) the expected remaining life of the warrant; (iii) the expected volatility using a weighted-average of historical volatilities from a combination of SIGA and comparable companies; and (iv) the risk-free market rate. At June 30, 2013 and December 31, 2012, the fair value of liability classified warrants were as follows:

	June 30, 2013	December 31, 2012 (Revised)
Common stock warrants, current	\$243,199	\$333,793
Common stock warrants, non-current	249,558	657,246
	\$492,757	\$991,039

At June 30, 2013 and December 31, 2012, the Company also had \$12.0 million and \$5 million in outstanding debt, respectively. The fair value of this debt is a Level 2 measurement. The fair value of the loan approximates carrying value at June 30, 2013. For the three and six months ended June 30, 2013 and 2012, SIGA did not hold any Level 3 securities.

## 6. Related Party Transactions

On December 1, 2009, the Company entered into an Office Services Agreement with an affiliate of M&F to occupy office space for approximately \$8,000 per month. An amendment in February 2012 increased the monthly payment to \$12,000 to appropriately reflect expanded use of space. The Office Services Agreement was canceled effective March 31, 2013.

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 new sublease replaced the Office

Services Agreement that is described in the previous paragraph, and occupancy commenced on April 1, 2013. The sublease allows for a free rent period of five months beginning April 1, 2013; subsequent to the free rent period, monthly rent payments are scheduled to be \$60,000 for the first five years and \$63,000 for the next two years. Rent payments under the lease and sublease are subject to customary rent escalation clauses.

In April 2013, the Company entered into a Services Agreement with M&F and a warrant agreement with M&F (refer to Note 3).

A member of the Company's Board of Directors is a member of the Company's outside counsel. During the six months ended June 30, 2013 and 2012, the Company incurred costs of \$789,000 and \$875,000, respectively, related to services provided by the outside counsel. On June 30, 2013, the Company's outstanding payables included \$256,000 payable to the outside counsel.

Table of Contents

## 7. Inventory

As of June 30, 2013 and December 31, 2012, the Company has \$18.5 million and \$17.6 million of work-in-process inventory, respectively. During the six months ended June 30, 2013, the Company delivered approximately 390,000 courses to the Strategic Stockpile; due to the deferral of revenue under the BARDA Contract (refer to Note 2), the amount of cost of goods sold for delivered courses is recorded as deferred costs in the balance sheet. The value of in-process inventory represents the costs incurred to manufacture Arestvyr under the BARDA Contract. Certain of the existing units of Arestvyr were initially manufactured prior to the point at which future commercialization was probable; thus, such cost was expensed as research and development in those respective periods. Additional costs incurred to complete production of courses of Arestvyr will be recorded as inventory and reclassified to deferred costs upon delivery to the extent related revenue is deferred.

## 8. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2013	December 31, 2012
Laboratory equipment	\$2,388,086	\$2,305,410
Leasehold improvements	2,887,415	2,817,123
Computer equipment	540,890	458,421
Furniture and fixtures	468,391	345,287
	6,284,782	5,926,241
Less - accumulated depreciation	(5,141,131)	(4,938,372)
Property, plant and equipment, net	\$1,143,651	\$987,869

## 9. Accrued Expenses

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2013	December 31, 2012
Loss contingency	\$2,561,374	\$2,491,981
Bonus	803,590	250,000
Professional fees	560,156	579,609
Vacation	363,565	328,463
Other	1,214,065	633,796
Accrued expenses and other current liabilities	\$5,502,750	\$4,283,849

## 10. Income Taxes

Deferred tax assets, net were \$48.0 million on June 30, 2013 and \$43.7 million on December 31, 2012, respectively, net of valuation allowances of \$4.3 million and \$4.3 million, respectively. For the three and six months ended June 30, 2013, the Company incurred net losses for tax purposes and consequently recognized an income tax benefit of \$2.0 million and \$4.2 million, respectively. For the three and six months ended June 30, 2012, the Company incurred net losses for tax purposes and consequently recognized an income tax benefit of \$1.7 million and \$3.6 million, respectively.

The recognition of a valuation allowance for deferred taxes requires management to make estimates and judgments about the Company's 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 are reduced or not realized, for example,



based on the outcome of the PharmAthene litigation described in Note 12, 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.

#### 11. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued new guidance on the reporting of reclassifications from accumulated other comprehensive income to net income. The new guidance does not change the requirements for reporting net income or other comprehensive income in financial statements but requires disclosures regarding the reclassification of accumulated other comprehensive income by component into net income. The Company's adoption of this guidance on January 2, 2013 did not have a material effect on our financial statements.

In July 2013, the FASB issued new guidance on the financial statement presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not anticipate a material impact to the Company's financial position, results of operations or cash flows as a result of this change.

#### 12. Legal Proceedings

In December 2006, PharmAthene, Inc. ("PharmAthene") filed an action against SIGA in the Delaware Court of Chancery (the "Court" or "Court of Chancery") captioned PharmAthene, Inc. v. SIGA Technologies, Inc., C.A. No. 2627-N. In its amended complaint, PharmAthene asked the Court to order the Company to enter into a license agreement with PharmAthene with respect to ST-246, now also known as Arestvyr, to declare that the Company is obliged to execute such a license agreement, and to award damages resulting from the Company's supposed breach of that obligation. PharmAthene also alleged that the Company breached an obligation to negotiate such a license agreement in good faith, and sought damages for promissory estoppel and unjust enrichment based on supposed information, capital, and assistance that PharmAthene allegedly provided to the Company during the negotiation process. The Court tried the case in January 2011.

In September 2011, the Court issued its post-trial opinion. The Court denied PharmAthene's requests for specific performance and expectation damages measured by the present value of estimated future profits. Nevertheless, the Court held that the Company breached its duty to negotiate in good faith and was 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

Table of Contents

the net profits that the Company achieves from sales of ST-246 after the Company secures \$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.

In May 2012, the Court entered its final order and judgment in this matter, implementing its post-trial opinion. Among other things, the final order and judgment provided that (a) net profits would be calculated in accordance with generally accepted accounting principles applied consistently with how they are applied in the preparation of the Company's financial statements, (b) the net profits calculation would take into account expenses relating to ST-246 commencing with the Company's acquisition of ST-246 in August 2004, and (c) PharmAthene could recover \$2.4 million of attorneys' fees and expenses. As of June 30, 2013, SIGA has recorded a \$2.6 million loss contingency with respect to the fee, expense and interest portion of the judgment.

In June 2012, the Company appealed to the Supreme Court of the State of Delaware 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. The Company posted \$1.3 million as collateral for the surety bond which is recorded in other assets as of June 30, 2013. The parties briefed the issues, and argued before the Delaware Supreme Court, en banc, on January 10, 2013.

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 Vice Chancellor Parsons. The Supreme Court affirmed the Chancery Court determination that the Company had breached its contractual obligation to negotiate in good faith; reversed the promissory estoppel holding; and, reversed the Vice Chancellor's equitable damages award. The Supreme Court held that the trial judge may award expectation damages for breach of the contractual duty to negotiate in good faith if such damages are proven with reasonable certainty, and remanded to the Chancery Court for consideration of damages consistent with that holding. The Supreme Court also reversed the Chancery Court's award of attorney fees and expert witness fees because they were predicated in part on a now-reversed finding of liability on PharmAthene's promissory estoppel claim. The Supreme Court held that the Chancery Court could reevaluate on remand an alternative award, if any, of attorneys' fees and expert testimony expenses consistent with the Supreme Court's opinion. Finally, the Supreme Court declined to consider all claims raised in PharmAthene's cross appeal because it affirmed the Chancery Court's finding that the Company was liable for breaching its contractual obligation to negotiate in good faith. On June 11, 2013, the Supreme Court issued its mandate to the Court of Chancery with the decision described above.

On June 26, 2013, the parties appeared before Vice Chancellor Parsons to discuss the remand, at which time PharmAthene declared its desire to supplement the record with further evidence. Following briefing, the parties expect the Chancery Court to hear argument on this PharmAthene motion in August. After the Chancery Court determines the scope of the record, we expect the Chancery Court to require further briefing by the parties on the remedy to be awarded.

No assurances can be given as to the Chancery Court's determinations on remand.

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.



Table of Contents

## 13. Revision of Consolidated Financial Statements

Subsequent to the issuance of its annual report on Form 10-K for the year ended December 31, 2012 as filed on March 6, 2013, the Company determined certain outstanding warrants to purchase common stock of the Company (the “Warrants”) should have been recorded as liabilities rather than equity and that non-cash charges resulting from required periodic “mark-to-market” adjustments of the Warrants also should have been recorded. For the year ended December 31, 2012 and the quarters therein, the quantitative and qualitative impact of the non-cash adjustments on net loss were not material and consequently, the Company revised prior period amounts as disclosed within the Form 10-K/A filed on May 14, 2013. As these are non-cash items, there is no impact to net cash used in operations for the three and six months ended June 30, 2012.

The effects of the revision on the unaudited financial statements are summarized below:

	December 31, 2012		
	As Originally Reported	Adjustments	Revised
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$32,017,490		\$32,017,490
Accounts receivable	970,288		970,288
Inventory	17,641,922		17,641,922
Prepaid expenses and other current assets	801,149		801,149
Deferred tax assets, net	33,515,327		33,515,327
Total current assets	84,946,176		84,946,176
Property, plant and equipment, net	987,869		987,869
Receivables from long-term contract	3,771,219		3,771,219
Deferred costs	2,841,534		2,841,534
Goodwill	898,334		898,334
Other assets	2,181,720		2,181,720
Deferred tax assets, net	10,209,278		10,209,278
Total assets	\$105,836,130	\$—	\$105,836,130
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$10,189,917		\$10,189,917
Accrued expenses and other current liabilities	4,283,849		4,283,849
Current common stock warrants	287,036	46,757	333,793
Current portion of long term debt	954,738		954,738
Total current liabilities	15,715,540	46,757	15,762,297
Deferred revenue	57,052,020		57,052,020
Common stock warrants	—	657,246	657,246
Long term debt	3,955,262		3,955,262
Other liabilities	166,303		166,303
Total liabilities	76,889,125	704,003	77,593,128
Stockholders' equity			
Common stock	5,164		5,164
Additional paid-in capital	152,340,303	15,248,071	167,588,374
Accumulated deficit	(123,398,462)	(15,952,074)	(139,350,536)

Edgar Filing: SIGA TECHNOLOGIES INC - Form 10-Q

Total stockholders' equity	28,947,005	(704,003	) 28,243,002
Total liabilities and stockholders' equity	\$105,836,130	\$—	\$105,836,130



## Table of Contents

### 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.

#### Revision

As discussed in Note 13 to this filing, the Company amended and revised its consolidated balance sheet at December 31, 2012 and statements of operations and of cash flows for the three and six months ended June 30, 2012. The following discussion and analysis of our financial condition and results of operations is based on and takes into account the revised amounts. For this reason, the data set forth in this section may not be comparable to discussion and data in our previously filed Quarterly Reports on Form 10-Q.

#### Overview

We are a pharmaceutical company specializing in the development and commercialization of pharmaceutical solutions for some of the most lethal disease-causing pathogens in the world - smallpox, Ebola, dengue, Lassa fever and other dangerous viruses. Our business is to discover, develop, manufacture and commercialize drugs to prevent and treat these high-priority threats. Our mission is to disarm dreaded viral diseases and create robust, modern biodefense countermeasures.

#### Lead Product - Arestvyr

Our lead product, Arestvyr (tecovirimat), also known as ST-246, is an orally administered antiviral drug that targets orthopoxviruses. On May 13, 2011, we signed the BARDA Contract pursuant to which we agreed to deliver two million courses of Arestvyr to the Strategic Stockpile. The base contract, worth approximately \$463 million, includes \$54 million related to development and supportive activities and contains various options to be exercised at BARDA's discretion. The period of performance for development and supportive activities runs until 2020. As originally issued, the BARDA Contract included an option for the purchase of up to 12 million additional courses of Arestvyr; however, following a protest by a competitor of the Company, BARDA issued a contract modification on June 24, 2011 pursuant to which it deleted the option to purchase the additional courses. Under the BARDA Contract as modified, BARDA has agreed to buy from SIGA 1.7 million courses of Arestvyr. Additionally, SIGA will contribute to BARDA 300,000 courses manufactured primarily using federal funds provided by HHS under prior development contracts. The BARDA Contract as modified also contains options that will permit SIGA to continue its work on pediatric and geriatric formulations of the drug as well as use Arestvyr for smallpox prophylaxis. As discussed in Part II, Item 1, "Legal Proceedings", the amount of profits we will retain pursuant to the BARDA Contract is subject to the outcome of the litigation in Delaware between SIGA and PharmAthene.

We expect Arestvyr will be among the first new small-molecule drugs delivered to the Strategic Stockpile under Project BioShield. Arestvyr is an investigational product that is not currently approved by FDA as a treatment of smallpox or any other indication. FDA has designated Arestvyr 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 financial statements, which we discuss under the heading "Results of Operations" following this

section of our Management's Discussion and Analysis. 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 and warrants, revenue recognition, impairment of assets and income taxes. Information regarding our critical accounting policies and estimates appear in Item 7, Management's Discussion of Analysis and Financial Condition and Results of Operation, included in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed on March 6, 2013, as amended by the Form 10-K/A filed May 14, 2013. During the six months ended June 30, 2013, 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

Revenues from research and development contracts and grants for the three months ended June 30, 2013 and 2012 were \$965,000 and \$2.7 million, respectively. The decrease of \$1.7 million, or 64%, is primarily attributable to a \$1.0 million decrease in revenues from our federal contracts supporting the development of Arestvyr, and a \$751,000 decrease in revenues related to lower usage of the dengue and Lassa fever federal grants.

Revenues from contracts and grants for the six months ended June 30, 2013 and 2012 were \$2.3 million and \$4.2 million, respectively. The decline in revenue is due to a \$1.1 million decrease in revenues from federal contracts supporting the development of Arestvyr, including the conclusion of a federal grant supporting the development of Arestvyr in conjunction with vaccine, and a \$730,000 decrease in revenues related to lower usage of dengue and Lassa fever federal grants in the second quarter of 2012.

Selling, general and administrative expenses (“SG&A”) for the three months ended June 30, 2013 and 2012 were \$3.2 million and \$3.5 million, respectively, reflecting a decrease of approximately \$309,000 or 9%. The decrease in SG&A expenses primarily relates to the impact of \$372,000 loss contingency expense that was recorded in the second quarter of 2012.

SG&A for the six months ended June 30, 2013 and 2012 were \$6.2 million and \$5.7 million, respectively, reflecting an increase of approximately \$509,000 or 9%. The increase in SG&A expenses is mainly attributable to a \$711,000 increase in employee compensation, which is related to an uptick in corporate headcount and an increase in non-cash stock compensation expense, partially offset by the impact of a \$372,000 loss contingency expense that was recorded in the second quarter of 2012.

Research and development (“R&D”) expenses were \$3.1 million for the three months ended June 30, 2013, a decrease of approximately \$2.1 million or 40% from the \$5.2 million incurred during the three months ended June 30, 2012. The decrease was mostly attributable to a decrease in direct vendor-related expenses supporting the development of Arestvyr, dengue antivirals and Lassa fever antivirals.

R&D expenses were \$6.8 million for the six months ended June 30, 2013, a decrease of approximately \$2.9 million or 30% from the \$9.6 million incurred during the six months ended June 30, 2012. The decrease was primarily due to a decrease in expenses related to the development of Arestvyr and Lassa fever antivirals.

During the six months ended June 30, 2013 and 2012, we incurred direct costs of \$2.5 million and \$4.5 million, respectively, on the development of Arestvyr. For the six months ended June 30, 2013, we spent approximately \$326,000 on internal human resources dedicated to the drug’s development and \$2.1 million mainly on manufacturing and clinical testing. During the six months ended June 30, 2012, we spent \$658,000 on internal human resources dedicated to the drug’s development and \$3.8 million mainly on clinical testing and manufacturing. From inception of the ST-246 development program to-date, we have invested a total of \$55.1 million in the program, of which \$10.0 million supported internal human resources and \$45.2 million were used mainly for manufacturing, clinical and pre-clinical work. These resources reflect research and development expenses directly related to the program. They exclude additional expenditures such as patent costs, allocation of indirect expenses, and other services provided by BARDA, NIH and the Department of Defense (“DoD”).

During the six months ended June 30, 2013, we spent approximately \$1.0 million to support the development of drug candidates for dengue fever, Lassa fever and other drug candidates for certain arenavirus pathogens and hemorrhagic fevers, of which \$606,000 was spent mainly on human resources and \$402,000 was spent on chemistry and certain laboratory equipment. During the six months ended June 30, 2012, we spent \$1.3 million for the development of drug candidates for dengue fever and Lassa fever, of which \$583,000 was spent mainly on human resources and \$723,000

was spent mainly on the optimization and chemistry of the lead antiviral compounds. From inception of these programs to date, we have spent a total of \$13.5 million related to the programs, of which \$5.0 million, \$8.1 million and \$299,000 were expended on internal human resources, pre-clinical work and equipment, respectively. These resources reflect research and development expenses directly related to the programs. They exclude additional expenditures such as patent costs, allocation of indirect expenses, and other services provided by BARDA, NIH and DoD.

The majority of our product programs are in the early stage of development. As a result, we cannot make reasonable estimates of the potential cost for most of our programs to be completed or the time it will take to complete the programs. There is a high risk of non-completion of any program because of the lead time to program completion, scientific issues that may arise and uncertainty of the costs. However, we could receive additional grants, contracts or technology licenses in the short-term. The potential cash and timing is not known and we cannot be certain if they will ever occur. If we are unable to obtain additional federal funding in the required amounts, the development timeline for these products would slow or possibly be suspended.

## Table of Contents

Patent preparation expenses for the three and six months ended June 30, 2013 were \$301,000 and \$759,000, respectively. These expenses reflect our ongoing efforts to protect our lead drug candidates in expanded geographic territories.

Changes in the fair value of certain warrants to acquire common stock are recorded as gains or losses. For the three and six months ended June 30, 2013, we recorded gains of \$980,000 and \$6,000, respectively, reflecting changes in the fair market value of warrants to purchase common stock during the respective periods. The warrants to purchase our common stock were recorded at fair market value and classified as liabilities. For the three and six months ended June 30, 2012, we recorded a gain of \$905,000 (revised) and a loss of \$95,000 (revised), respectively.

Interest expense for the three and six months ended June 30, 2013 was \$376,000 and \$750,000, reflecting interest on outstanding long-term debt and certain vendor payable arrangements. There was no interest expense for the three and six months ended June 30, 2012.

For the three and six months ended June 30, 2013, we incurred net losses for tax purposes and consequently, recognized an income tax benefit of \$2.0 million and \$4.2 million, respectively. For the three and six months ended June 30, 2012, the benefit from income taxes of \$1.7 million and \$3.6 million mainly reflects the tax benefit from net losses offset by an increase to the valuation allowance based on current estimates of pre-tax income. If the current estimates of future taxable income are reduced or not realized, for example, based on the outcome of the litigation in Delaware between SIGA and PharmAthene litigation as described in Part II, Item 1, "Legal Proceedings," 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 for the period in which 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.

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 are reduced or not realized, for example, based on the PharmAthene litigation described in Part II, Item 1, "Legal Proceedings," 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

On June 30, 2013, we had \$32.9 million in cash and cash equivalents compared with \$32.0 million at December 31, 2012.

Subsequent to the balance sheet date, the Company has delivered an aggregate of approximately 590,000 courses of Arestvyr™ (tecovirimat), also known as ST-246®, to the U.S. Strategic National Stockpile (the "Strategic Stockpile"). As a result, SIGA has met a key requirement of its procurement contract with the Biomedical Advanced Research and Development Authority ("BARDA") and expects to receive payment of approximately \$79 million in the third quarter of 2013 for the courses of product delivered to date.

During the six months ended June 30, 2013, we received an \$8.2 million milestone payment under the BARDA Contract for successfully completing the milestone requirements for the Final Drug Product Commercial Validation

batches and report. Additionally, we received \$7.0 million in the second quarter of 2013 from a revolving line of credit. During the year ended December 31, 2012, we received a \$12.3 million milestone payment upon receiving FDA concurrence with respect to the product labeling strategy under the BARDA Contract and received net proceeds of \$4.9 million from the issuance of debt after deducting the discount and issue costs.

Borrowings under the revolving line of credit are due for repayment as we collect on eligible outstanding accounts receivable. As previously mentioned, we expected to receive payment in the third quarter of 2013.

## Table of Contents

### Operating activities

Net cash used in operations for the six months ended June 30, 2013 and 2012 was \$6.9 million and \$12.7 million, respectively. The decrease in cash used in operating activities relates to the timing of expenditures for the manufacture of Arestvyr in addition to development and supportive activities for Arestvyr in performance of the BARDA Contract. On June 30, 2013 and 2012, our accounts receivable balance was \$58.2 million and \$3.5 million, respectively. The increase in accounts receivable primarily reflects approximately \$52 million for the delivery of Arestvyr to the Strategic Stockpile in March and May 2013. Our accounts payable, accrued expenses and other current liabilities balance were \$21.8 million and \$14.5 million on June 30, 2013 and 2012, respectively. The amounts outstanding in both periods are mainly due to outstanding payables to contract manufacturing organizations for work-in-process inventory and to vendors for research and development services under the BARDA Contract.

### Investing activities

Capital expenditures during the six months ended June 30, 2013 and 2012 were approximately \$359,000 and \$245,000, respectively, reflecting purchases of fixed assets in the ordinary course of business and, in 2013, expenditures for certain furniture and equipment for the new office space in New York.

### Financing activities

Cash provided by financing activities was \$8.2 million and \$2,000, during the six months ended June 30, 2013 and 2012, respectively. In May 2013, we received \$7 million of available funds under a revolving line of credit. Moreover, in the six months ended June 30, 2013, we received \$1.4 million from exercises of options and warrants to purchase common stock.

### Other

We have incurred cumulative net losses and expect to incur additional expenses to perform further research and development activities. As of July 31, 2013, we have delivered an aggregate of approximately 590,000 courses of Arestvyr™ (tecovirimat), also known as ST-246®, to the Strategic Stockpile. As a result, we met a key requirement of the BARDA Contract (refer to Note 2) and expect to receive payment of approximately \$79 million in the third quarter of 2013 for the courses of product delivered to date. We believe that the funds expected to be received from the BARDA Contract (see Note 2) together with our existing capital resources and continuing government contracts and grants will be sufficient to support our operations beyond the next twelve months. As discussed in Part II, Item 1, “Legal Proceedings”, our ability to support our operations may be adversely affected by the outcome in the litigation with PharmAthene. The financial statements do not include any adjustment relating to the recoverability of the carrying amount of recorded assets and liabilities that might result from the outcome of these uncertainties.

### Off-Balance Sheet Arrangements

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

### Safe Harbor Statement

Certain statements in this Quarterly Report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, including statements relating to our performance under the BARDA Contract, our effort to seek approval and licensing from the United States Food and Drug Administration, the progress of our development programs and timelines for bringing products to market and the resolution of our ongoing litigation with PharmAthene, Inc. 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 us or our collaborators cannot be shown to be

efficacious or safe in subsequent animal, pre-clinical or clinical trials, (ii) the risk that we or our collaborators will not obtain appropriate or necessary governmental approvals to market these or other potential products, (iii) the risk that we may not be able to obtain anticipated funding for our development projects or other needed funding, (iv) the risk that we may not complete performance under the BARDA contract on schedule or in accordance with the contractual terms, (v) the risk that we may not be able to secure or enforce sufficient legal rights in our products, including intellectual property protection, (vi) the risk that any challenge to our patent and other property rights, if adversely determined, could affect our business and, even if determined favorably, could be costly, (vii) the risk that regulatory requirements applicable to our 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, (viii) 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 our contract with BARDA, or other governmental contracts, (ix) the risk that our BARDA contract is modified or canceled at the request or requirement of the U.S. Government, (x) the risk that the volatile and competitive nature of the biotechnology industry may hamper our efforts to develop or market our products, (xi) the risk that changes in domestic and foreign economic and market conditions may affect our ability to advance our research or products

Table of Contents

adversely, (xii) the effect of federal, state or foreign regulation, including drug regulation and international trade regulation, on our business, (xiii) the risk that our outstanding indebtedness may make it more difficult to obtain additional financing, (xiv) the risk that the U.S. Government's responses (including inaction) to the national and global economic situation, including possible courses of action related to the so-called "sequester," may affect our business adversely, (xv) the risk that our internal controls will not be effective in detecting or preventing a misstatement in our financial statements, (xvi) the risk that some amounts received and recorded as deferred revenue ultimately may not be recognized as revenue, (xvii) the risk that the recent remand to the Delaware Chancery Court could result in a burdensome new award of damages, (xviii) the risk that that remand may result in extended and expensive litigation, (xix) the risk that our litigation with PharmAthene may impede our efforts to continue to grow our company, and (xx) the risk that we may not be able to establish our intended positions or otherwise not prevail in any further court proceedings.

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 SIGA's Annual Report on Form 10-K, for the fiscal year ended December 31, 2012, as amended by SIGA's Form 10-K/A as filed on May 14, 2013, and in other documents that SIGA has filed with the Commission. SIGA urges investors and security holders to read those documents free of charge at the Commission's Web site at <http://www.sec.gov>. Interested parties may also obtain those documents free of charge from SIGA. All forward-looking statements are current only as of the date on which such statements were made. We do 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 unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our investment portfolio includes 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 June 30, 2013. 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 not effective as of June 30, 2013 because of a material weakness in our internal control over financial reporting as more fully described in Part II - Item 9A of the Annual Report on Form 10-K/A for the year ended December 31, 2012.

##### Restatement of Consolidated Financial Statements

On May 8, 2013, the Company concluded, based on the recommendation of management, that the previously issued consolidated financial statements for the years ended December 31, 2011 and 2010 included in the Company’s most recently filed Form 10-K for the year ended December 31, 2012, filed on March 6, 2013, are no longer appropriate to rely upon because they failed to account for certain outstanding warrants to purchase common stock of the Company (the “Warrants”) as liabilities rather than equity and to account for non-cash charges resulting from the periodic “mark-to-market” adjustments of the Warrants. The Company determined to restate the aforementioned financial statements in its Form 10-K/A for the year ended December 31, 2012, filed on May 14, 2013, in order to correct this error and reflect the aforementioned liabilities and non-cash charges.

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

There has been no changes in our internal control over financial reporting during the quarter ended June 30, 2013 that materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

##### Remediation Plan

Management has developed a remediation plan to address the material weakness in our internal control over financial reporting. Implementation of the remediation plan consists of redesigning existing quarterly control procedures to enhance management’s accounting for warrants issued by the Company.

Management believes the foregoing efforts will effectively remediate the material weakness. As the Company continues to evaluate and work to improve its internal control over financial reporting, management may execute additional measures to address potential control deficiencies or modify the remediation plan described above. Management will continue to review and make necessary changes to the overall design of the Company’s internal control environment, as well as to policies and procedures to improve the overall effectiveness of internal control over financial reporting.



Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In December 2006, PharmAthene, Inc. (“PharmAthene”) filed an action against us in the Delaware Court of Chancery (the “Court” or “Court of Chancery”) captioned PharmAthene, Inc. v. SIGA Technologies, Inc., C.A. No. 2627-N. In its amended complaint, PharmAthene asked the Court to order us to enter into a license agreement with PharmAthene with respect to ST-246, also known as Arestvyr, to declare that we are obliged to execute such a license agreement, and to award damages resulting from our supposed breach of that obligation. PharmAthene also alleges 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 supposed information, capital, and assistance that PharmAthene allegedly provided to us during the negotiation process. The Court tried the case in January 2011.

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 we achieve from sales of ST-246 after we secure \$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.

In May 2012, the Court entered its final order and judgment in this matter, implementing its post-trial opinion. Among other things, the final order and judgment provided that (a) net profits would be calculated in accordance with generally accepted accounting principles applied consistently with how they are applied in the preparation of our financial statements, (b) the net profits calculation would take into account expenses relating to ST-246 commencing with our acquisition of ST-246 in August 2004, and (c) PharmAthene could recover \$2.4 million of attorneys’ fees and expenses. As of June 30, 2013, SIGA has recorded a \$2.6 million loss contingency with respect to the fee, expense and interest portion of the judgment.

In June 2012, we appealed to the Supreme Court of the State of Delaware the final order and judgment and certain earlier rulings of the Court of Chancery. Shortly thereafter, PharmAthene filed its cross-appeal. We 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 as collateral for the surety bond which is recorded in other assets as of June 30, 2013. The parties briefed the issues and argued before the Delaware Supreme Court, en banc, on January 10, 2013.

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 Vice Chancellor Parsons. The Supreme Court affirmed the Chancery Court determination that the Company had breached its contractual obligation to negotiate in good faith; reversed the promissory estoppel holding; and, reversed the Vice Chancellor’s equitable damages award. The Supreme Court held that the trial judge may award expectation damages for breach of the contractual duty to negotiate in good faith if such damages are proven with reasonable certainty, and remanded to the Chancery Court for consideration of damages consistent with that holding. The Supreme Court also reversed the Chancery Court’s award of attorney fees and expert witness fees because they were predicated in part on a now-reversed finding of liability on PharmAthene’s promissory estoppel claim. The Supreme Court held that the Chancery Court could reevaluate on remand an alternative award, if any, of attorneys’ fees and expert testimony expenses consistent with the Supreme Court’s opinion. Finally, the Supreme Court declined to consider all claims raised in PharmAthene’s cross appeal because it affirmed the Chancery Court’s finding that the Company was liable for breaching its contractual obligation to negotiate in good faith. On June 11, 2013, the Supreme Court issued its mandate to the Court of Chancery with the decision described

above.

On June 26, 2013, the parties appeared before Vice Chancellor Parsons to discuss the remand, at which time PharmAthene declared its desire to supplement the record with further evidence. Following briefing, the parties expect the Chancery Court to hear argument on this PharmAthene motion in August. After the Chancery Court determines the scope of the record, we expect the Chancery Court to require further briefing by the parties on the remedy to be awarded.

No assurances can be given as to the Chancery Court's determinations on remand.

#### Item 1A. Risk Factors

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our originally filed 2012 Annual Report on Form 10-K and amended filing on Form 10-K/A for the fiscal year ended December 31, 2012.

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

None.

#### Item 3. Defaults upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

Not applicable.

#### Item 5. Other Information

None.

#### Item 6. Exhibits

- 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: August 5, 2013

By: /s/ Daniel J. Luckshire  
Daniel J. Luckshire  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)