

RETAIL VENTURES INC
Form 10-Q
December 15, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2009
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 number 1-10767
RETAIL VENTURES, INC.
(Exact name of registrant as specified in its charter)

Ohio

20-0090238

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

4150 E. Fifth Avenue, Columbus, Ohio

43219

(Address of principal executive offices)

(Zip Code)

(614) 238-4148

Registrant's telephone number, including area code

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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 checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

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The number of outstanding Common Shares, without par value, as of November 30, 2009 was 48,940,729.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)
(unaudited)

	October 31, 2009	January 31, 2009
ASSETS		
Cash and equivalents	\$ 108,723	\$ 94,308
Restricted cash		261
Short-term investments, net	169,429	101,404
Accounts receivable, net	5,614	7,142
Accounts receivable from related parties, net	165	332
Inventories	289,395	244,008
Prepaid expenses and other current assets	24,358	27,249
Deferred income taxes	29,378	22,243
Current assets held for sale		66,678
Total current assets	627,062	563,625
Property and equipment, net	216,274	236,355
Goodwill	25,899	25,899
Tradenames and other intangibles, net	3,028	3,668
Conversion feature of long-term debt	46,943	77,761
Deferred income taxes		805
Other assets	6,264	6,856
Non-current assets held for sale		38,793
Total assets	\$ 925,470	\$ 953,762

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(in thousands, except share amounts)
(unaudited)

	October 31, 2009	January 31, 2009
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	\$ 142,498	\$ 93,088
Accounts payable to related parties	2,876	3,125
Accrued expenses:		
Compensation	22,285	12,632
Taxes	40,963	14,857
Gift cards and merchandise credits	13,716	15,491
Guarantees from discontinued operations	4,330	2,909
Other	35,910	31,175
Warrant liability	16,260	6,292
Current maturities of long-term obligations		250
Current liabilities held for sale		76,030
Total current liabilities	278,838	255,849
Long-term obligations, net of current maturities	129,194	127,576
Long-term guarantees of discontinued operations	9,883	9,980
Other noncurrent liabilities	102,119	99,310
Deferred income taxes	18,511	29,806
Noncurrent liabilities held for sale		36,055
Commitments and contingencies		
Shareholders equity:		
Common shares, without par value; 160,000,000 authorized; issued and outstanding, including 7,551 treasury shares, 48,947,280 and 48,691,280, respectively	308,328	306,868
Accumulated deficit	(105,930)	(76,930)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Warrants		124
Accumulated other comprehensive loss	(6,619)	(655)
Accumulated other comprehensive loss held for sale		(6,734)
Total Retail Ventures shareholders equity	195,720	222,614
Noncontrolling interests	191,205	172,572
Total shareholders equity	386,925	395,186
Total liabilities and shareholders equity	\$ 925,470	\$ 953,762

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three months ended		Nine months ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Net sales	\$ 444,621	\$ 391,355	\$ 1,199,957	\$ 1,114,794
Cost of sales	(238,549)	(218,946)	(666,416)	(628,559)
Gross profit	206,072	172,409	533,541	486,235
Selling, general and administrative expenses	(164,862)	(151,492)	(531,140)	(431,633)
Change in fair value of derivative instruments	(30,701)	7,858	(40,778)	61,759
Operating profit (loss)	10,509	28,775	(38,377)	116,361
Interest expense	(3,236)	(3,241)	(9,678)	(10,431)
Interest income	626	2,895	1,891	8,468
Interest expense, net	(2,610)	(346)	(7,787)	(1,963)
Non-operating (expense) income, net	(754)	1,486	(621)	1,486
Income (loss) from continuing operations before income taxes	7,145	29,915	(46,785)	115,884
Income tax expense	(11,079)	(10,411)	(13,507)	(24,649)
(Loss) income from continuing operations	(3,934)	19,504	(60,292)	91,235
(Loss) income from discontinued operations, net of tax - Value City	(498)	2,035	83	8,908
Income (loss) from discontinued operations, net of tax - Filene's Basement	203	(6,562)	44,581	(30,521)
Total (loss) income from discontinued operations, net of tax	(295)	(4,527)	44,664	(21,613)
Net (loss) income	(4,229)	14,977	(15,628)	69,622
Less: net income attributable to the noncontrolling interests	(9,900)	(4,988)	(15,359)	(12,748)
Net (loss) income attributable to Retail Ventures, Inc.	\$ (14,129)	\$ 9,989	\$ (30,987)	\$ 56,874

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
(in thousands, except per share amounts)
(unaudited)

	Three months ended		Nine months ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Basic and diluted earnings (loss) per share:				
Basic (loss) earnings per share from continuing operations attributable to Retail Ventures, Inc. common shareholders	\$ (0.28)	\$ 0.30	\$ (1.55)	\$ 1.61
Diluted (loss) earnings per share from continuing operations attributable to Retail Ventures, Inc. common shareholders	\$ (0.28)	\$ 0.30	\$ (1.55)	\$ 1.58
Basic (loss) earnings per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	\$ (0.01)	\$ (0.09)	\$ 0.91	\$ (0.44)
Diluted (loss) earnings per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	\$ (0.01)	\$ (0.09)	\$ 0.91	\$ (0.43)
Basic (loss) earnings per share attributable to Retail Ventures, Inc. common shareholders	\$ (0.29)	\$ 0.21	\$ (0.63)	\$ 1.17
Diluted (loss) earnings per share attributable to Retail Ventures, Inc. common shareholders	\$ (0.29)	\$ 0.20	\$ (0.63)	\$ 1.14
Shares used in per share calculations:				
Basic	48,938	48,681	48,855	48,665
Diluted	48,938	48,817	48,855	49,803
Amounts attributable to Retail Ventures, Inc. common shareholders:				
(Loss) income from continuing operations, net of tax	\$ (13,834)	\$ 14,516	\$ (75,651)	\$ 78,487
Discontinued operations, net of tax	(295)	(4,527)	44,664	(21,613)
Net (loss) income	\$ (14,129)	\$ 9,989	\$ (30,987)	\$ 56,874

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(in thousands)
(unaudited)

	Number of Shares		Retail Ventures, Inc. Shareholders						Total
	Common Shares	in Common Shares	Retained Earnings (Accumulated Deficit)	Treasury Shares	Warrants	Comprehensive Loss	Non- controlling Interests	Total	
Balance, February 2, 2008	48,623	8	\$ 305,254	\$ (130,577)	\$ (59)	\$ 124	\$ (1,819)	\$ 160,349	\$ 333,272
Net income from continuing operations				78,487				12,748	91,235
Net loss from discontinued operations				(21,613)					(21,613)
Unrealized loss on available-for-sale securities, net of tax benefit of \$616							(941)		(941)
<i>Total comprehensive income</i>									\$ 68,681
Capital transactions of subsidiary				2,452				1,372	3,824
Stock based compensation expense, before related tax effects			1,046						1,046
Exercise of stock options	65		200						200
Balance, November 1, 2008	48,688	8	\$ 306,500	\$ (71,251)	\$ (59)	\$ 124	\$ (2,760)	\$ 174,469	\$ 407,023
Balance, January 31, 2009	48,691	8	\$ 306,868	\$ (76,930)	\$ (59)	\$ 124	\$ (7,389)	\$ 172,572	\$ 395,186
Net (loss) income from continuing operations				(75,651)				15,359	(60,292)
Net income from discontinued operations				44,664					44,664
Unrealized loss on available-for-sale securities							(99)		(99)
<i>Total comprehensive loss</i>							754		\$ (15,727)
									754

Reclassification of unrealized losses on available-for-sale securities to an other-than-temporary impairment									
Capital transactions of subsidiary			1,987				3,274		5,261
Stock based compensation expense, before related tax effects			949						949
Exercise of stock options	256		511						511
Cumulative effect of adoption of new accounting pronouncement					(115)	115			
Reclassification of warrants to liability					(9)				(9)
Balance, October 31, 2009	48,947	8	\$ 308,328	\$ (105,930)	\$ (59)	\$	\$ (6,619)	\$ 191,205	\$ 386,925

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine months ended	
	October 31, 2009	November 1, 2008
Cash from operating activities:		
Net (loss) income	\$ (15,628)	\$ 69,622
Less: (income) loss from discontinued operations, net of tax	(44,664)	21,613
(Loss) income before discontinued operations	\$ (60,292)	\$ 91,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt issuance costs and discount on debt	2,630	2,515
Stock based compensation expense	949	1,046
Stock based compensation expense of subsidiary	1,987	2,452
Depreciation and amortization	34,782	26,109
Change in fair value of derivative instruments	40,778	(61,759)
Gain on repurchase of Premium Income Exchangeable Securities		(1,486)
Deferred income taxes and other noncurrent liabilities	(28,053)	(8,956)
Impairment charges on long-lived assets	481	1,586
Non-operating expense, net	621	
Loss on disposal of assets	387	1,062
Impairment charges on receivables from Filene's Basement	57,897	
Other	3,274	1,018
Change in working capital, assets and liabilities:		
Accounts receivable	2,403	6,029
Inventories	(45,387)	(57,207)
Prepaid expenses and other current assets	2,951	(309)
Accounts payable	47,703	22,692
Proceeds from construction and tenant allowances	6,680	14,928
Accrued expenses	31,244	15,787
Net cash provided by operating activities from continuing operations	101,035	56,742
Net cash provided by (used in) operating activities from discontinued operations	20,563	(10,164)
The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.		

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in thousands)
(unaudited)

	Nine months ended	
	October 31, 2009	November 1, 2008
Cash flows from investing activities:		
Cash paid for property and equipment	(18,671)	(66,272)
Purchases of available-for-sale investments	(161,147)	(182,672)
Maturities and sales of available-for-sale investments	101,106	174,213
Purchases of held-to-maturity investments	(12,105)	(2,000)
Maturities and sales of held-to-maturity investments	3,675	2,000
Transfer of cash from restricted cash	10,261	
Transfer of cash to restricted cash	(10,000)	
Net cash used in investing activities from continuing operations	(86,881)	(74,731)
Net cash used in investing activities from discontinued operations	(158)	(3,372)
Cash flows from financing activities:		
Payment of current maturities on long-term obligations	(250)	
Repurchase of Premium Income Exchangeable Securities		(5,600)
Proceeds from exercise of stock options	511	200
Net cash provided by (used in) financing activities from continuing operations	261	(5,400)
Net cash (used in) provided by financing activities from discontinued operations	(25,181)	20,500
Net increase (decrease) in cash and equivalents from continuing operations	\$ 14,415	\$ (23,389)
Cash and equivalents from continuing operations, beginning of period	94,308	107,260
Cash and equivalents from continuing operations, end of period	\$ 108,723	\$ 83,871
Net (decrease) increase in cash and equivalents from discontinued operations	\$ (4,776)	\$ 6,964
Cash and equivalents from discontinued operations, beginning of period	4,776	5,691
Cash and equivalents from discontinued operations, end of period	\$	\$ 12,655

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BUSINESS OPERATIONS

Retail Ventures, Inc. (Retail Ventures or RVI) and its wholly-owned subsidiaries and majority-owned subsidiary are herein referred to collectively as the Company . Retail Ventures common shares are listed on the New York Stock Exchange trading under the ticker symbol RVI . The Company operates two segments in the United States of America (United States). DSW Inc. (DSW) is a specialty branded footwear retailer. As of October 31, 2009, DSW operated a total of 306 stores located throughout the United States and dsw.com. DSW also supplies shoes, under supply arrangements, for 356 locations for four retailers in the United States. The Corporate segment consists of all revenue and expenses that are not attributable to the DSW segment.

As of October 31, 2009, Retail Ventures owned Class B Common Shares of DSW representing approximately 62.7% of DSW s outstanding common shares and approximately 93.1% of the combined voting power of such shares. DSW is a controlled subsidiary of Retail Ventures and its Class A Common Shares are listed on the New York Stock Exchange trading under the ticker symbol DSW .

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores (Value City) business to VCHI Acquisition Co., a newly formed entity owned by VCDs Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC. Retail Ventures received no net cash proceeds from the sale, paid a fee of \$500,000 to the purchaser, and recognized an after-tax loss of \$76.7 million on the transaction as of October 31, 2009. As part of the transaction, Retail Ventures, Inc. issued warrants to VCHI Acquisition Co. to purchase 150,000 RVI common shares, at an exercise price of \$10.00 per share, and exercisable within 18 months of January 23, 2008. The warrants expired in June 2009. To facilitate the change in ownership and operation of Value City Department Stores, Retail Ventures agreed to provide or arrange for the provision of certain transition services principally related to information technology, finance and human resources to Value City Department Stores for a period of one year unless otherwise extended by both parties. On October 26, 2008, Value City filed for bankruptcy protection and announced that it would close its remaining stores. The Company negotiated an agreement with Value City to continue to provide services post bankruptcy filing, including risk management, financial services, benefits administration, payroll and information technology services, in exchange for a weekly payment. As of October 31, 2009, the Company is still providing Value City with limited transition services.

On April 21, 2009, Retail Ventures entered into and consummated the transactions contemplated by a definitive agreement dated April 21, 2009 (the Purchase Agreement) to dispose of Filene s Basement, Inc. and certain related entities to FB II Acquisition Corp., a newly formed entity owned by Buxbaum Holdings, Inc. (Buxbaum). Retail Ventures did not realize any cash proceeds from this transaction and will pay a fee of \$1.3 million to Buxbaum, of which \$0.7 million has been paid through October 31, 2009, and has reimbursed \$0.4 million of Buxbaum s costs associated with the transaction. Retail Ventures has also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. Retail Ventures has recognized an after-tax gain of \$76.1 million on the transaction as of October 31, 2009. As a result of the disposition, Filene s Basement is no longer a related party of Retail Ventures. On May 4, 2009, Filene s Basement filed for bankruptcy protection. On June 18, 2009, following bankruptcy court approval, SYL LLC, a subsidiary of Syms Corp (Syms), purchased certain assets of Filene s Basement. All references to liquidating Filene s Basement refer to the debtor, formerly known as Filene s Basement Inc., and its debtor subsidiaries remaining after the asset purchase by a subsidiary of Syms. All references to New Filene s Basement refer to the stores operated by Syms. The Company negotiated with Syms to provide transition services in exchange for payment. As of October 31, 2009, the Company is still providing transition services to Syms.

DSW. DSW is a leading U.S. specialty branded footwear retailer operating stores in 39 states as of October 31, 2009. Its stores offer a remarkable selection of better-branded dress, casual and athletic footwear for women and men. As of October 31, 2009, DSW, pursuant to supply agreements, operated 266 leased shoe departments for Stein Mart, Inc., 66 for Gordmans, Inc., 23 for Filene s Basement and one for Frugal Fannie s Fashion Warehouse. Supply agreements results are included within the DSW segment. During the nine months ended October 31, 2009, DSW opened nine new stores, relocated one store, closed one store, added three leased departments and ceased operations in 24 leased

departments.

Corporate. The Corporate segment represents the corporate assets, liabilities and expenses not allocated to the DSW segment, debt related expenses and income on investments.

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RETAIL VENTURES, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009, as filed with the Securities and Exchange Commission (the "SEC") on April 30, 2009 (the "2008 Annual Report").

In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal recurring adjustments, which are necessary to present fairly the condensed consolidated financial position, results of operations and cash flows for the periods presented.

Allowance for Doubtful Accounts The Company monitors its exposure for losses and records related allowances for doubtful accounts. Allowances are estimated based upon specific accounts receivable balances, where a risk of default has been identified. As of October 31, 2009 and January 31, 2009, the Company's allowance for doubtful accounts was \$6.7 million and \$1.2 million, respectively. The increase in the allowance was primarily related to allowances recorded related to receivables from liquidating Filene's Basement. In addition, during the quarter ended May 2, 2009, there was an allowance recorded for \$52.6 million to fully reserve for the notes receivable from liquidating Filene's Basement. Effective November 3, 2009, RVI's claims against liquidating Filene's Basement in respect of these notes receivables were released in connection with a Settlement Agreement approved by the bankruptcy court.

Inventories Merchandise inventories are stated at net realizable value, determined using the first-in, first-out basis, or market, using the retail inventory method. The retail method is widely used in the retail industry due to its practicality. Under the retail inventory method, the valuation of inventories at cost and the resulting gross profits are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The cost of the inventory reflected on the balance sheet is decreased by charges to cost of sales at the time the retail value of the inventory is lowered through the use of markdowns, which are reductions in prices due to customers' perception of value. Hence, earnings are negatively impacted as the merchandise is marked down prior to sale.

Inherent in the calculation of inventories are certain significant management judgments and estimates, including setting the original merchandise retail value, markdowns, and estimates of losses between physical inventory counts, or shrinkage, which combined with the averaging process within the retail method, can significantly impact the ending inventory valuation at cost and the resulting gross profit.

Tradenames and Other Intangible Assets, net Tradenames and other intangible assets, net are primarily comprised of values assigned to tradenames and leases the Company acquired. The gross balance of tradenames and other intangible assets was \$12.9 million as of both October 31, 2009 and January 31, 2009. Accumulated amortization for these assets was \$9.9 million and \$9.2 million at October 31, 2009 and January 31, 2009, respectively.

Amortization expense for each of the three and nine months ended October 31, 2009 and November 1, 2008 was \$0.3 million and \$0.7 million, respectively. Amortization associated with the net carrying amount of intangible assets at October 31, 2009 is estimated to be \$0.2 million for the remainder of fiscal year 2009, \$0.9 million for each fiscal year from fiscal year 2010 through fiscal year 2012 and \$0.2 million in fiscal year 2013.

Customer Loyalty Program The Company maintains a customer loyalty program for the DSW stores and dsw.com in which program members earn reward certificates that result in discounts on future purchases. Upon reaching the target-earned threshold, the members receive reward certificates for these discounts which expire within six months. The Company accrues the anticipated redemptions of the discount earned at the time of the initial purchase. To estimate these costs, DSW is required to make assumptions related to customer purchase levels and redemption rates based on historical experience. The accrued liability as of October 31, 2009 and January 31, 2009 was \$9.3 million and \$7.3 million, respectively.

Noncontrolling Interests During both the three and nine months ended October 31, 2009 and November 1, 2008, there was an immaterial impact to the net income (loss) attributed to Retail Ventures, Inc. as a result of the additional DSW common shares outstanding from DSW director stock unit grants. DSW granted 765 and 45,895 director stock units during the three and nine months ended October 31, 2009, respectively and granted 2,658 and 43,887 director stock units during the three and nine months ended November 1, 2008, respectively.

Sales and Revenue Recognition Revenues from merchandise sales are recognized upon customer receipt of merchandise, are net of returns and sales tax and are not recognized until collectability is reasonably assured. For dsw.com, the Company estimates a time lag for shipments to record revenue when the customer receives the goods and also includes revenue from shipping and handling in net sales while the related costs are included in cost of sales. Revenue from gift cards is deferred and recognized upon redemption of the gift card. The Company's policy is to recognize income from breakage of gift cards when the likelihood of redemption of the gift card is remote. The Company recognized \$0.2 million as miscellaneous income from gift card breakage during both of the three months ended October 31, 2009 and November 1, 2008. The Company recognized \$0.6 million and \$0.5 million as miscellaneous income from gift card breakage during the nine months ended October 31, 2009 and November 1, 2008, respectively.

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RETAIL VENTURES, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Income Taxes Income taxes are accounted for using the asset and liability method as required by ASC 740 *Income Taxes*. Under this method, deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Sale of Subsidiary Stock Sales of stock by a subsidiary are accounted for by Retail Ventures as capital transactions.

Subsequent Events The Company has evaluated subsequent events through December 15, 2009, the date the Company's financial statements were issued.

3. ADOPTION OF ACCOUNTING STANDARDS

In December 2007, the FASB issued Accounting Standards Codification (ASC) 805 *Business Combinations*. ASC 805 establishes a framework for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. ASC 805 was effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The adoption of ASC 805 during the first quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

In December 2007, the FASB issued an update to ASC 805 *Business Combinations* related to noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interest) and for the deconsolidation of a subsidiary. This guidance shall be applied prospectively as of the beginning of the fiscal year in which this statement is initially adopted, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. This guidance was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with early adoption prohibited. The adoption of this guidance during the first quarter of fiscal year 2009 resulted in enhanced disclosures regarding the minority interests of DSW as well as some presentation changes of noncontrolling interest within the balance sheets, statements of operations and statements of changes in shareholders' equity.

In March 2008, the FASB issued an update to ASC 815 *Derivatives and Hedging* related to disclosures about an entity's derivative instruments and hedging activities. This guidance establishes enhanced disclosures about the entity's derivative and hedging activities. This guidance was effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Adoption of this guidance during the first quarter of fiscal year 2009 resulted in enhanced disclosure regarding the Company's derivative instruments. See Note 7 for additional information regarding Retail Ventures' derivative instruments.

In June 2008, the FASB issued an update to ASC 815-40 *Derivatives and Hedging, Contracts in Entity's Own Equity* related to determining whether an instrument (or embedded feature) is indexed to an entity's own stock. This guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. ASC 815-10 *Derivatives and Hedging* topic specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. ASC 815-40 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the ASC 815-10 scope exception. The adoption of this guidance during the first quarter of fiscal year 2009 resulted in the redesignation and reclassification of the VCHI Warrants from Equity to Liability within the balance sheets. In addition, the VCHI Warrants were marked to market as of the date of the adoption and continued to be marked to market through their expiration date.

In November 2008, the FASB issued an update to the ASC 815-40 *Derivatives and Hedging, Contracts in Entity's Own Equity* topic related to accounting for an instrument (or an embedded feature) with a settlement amount that is

based on the stock of an entity's consolidated subsidiary. This guidance was effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. This guidance states that provided that the subsidiary is a substantive entity, instruments indexed to the stock of a subsidiary could be considered indexed to the entity's own stock within the consolidated financial statements. The instruments should be evaluated using ASC 815-40 and other applicable guidance to determine the classification of the instrument. The adoption of this guidance during the first quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

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In April 2008, the FASB issued an update to the ASC 350-30 *Goodwill and Other Intangible Assets, General Intangibles Other than Goodwill* that amends factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this guidance is to improve consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure its fair value. This guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. This guidance was prospectively applied to intangible assets acquired after the effective date. The disclosure requirements were applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The adoption of this guidance during the first quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

In May 2008, the FASB issued an update to ASC 470-20 *Debt, Debt with Conversion and Other Options* related to accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). This guidance applies to convertible debt instruments that may be settled in cash (including partial cash settlement) unless the embedded conversion option is required to be separately accounted for as a derivative under ASC 815-10. This guidance requires that the convertible debt instrument is separated into a liability-classified component and an equity-classified component in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of this guidance during the first quarter of fiscal year 2009 did not impact the Company's consolidated financial statements. Additional disclosures related to the Company's convertible debt have been included in Note 7 as a result of the adoption of this guidance.

In June 2008, the FASB issued an update to ASC 260 *Earnings Per Share* related to determining whether instruments granted in share-based payment transactions are participating securities. This guidance addresses whether awards granted in unvested share-based payment transactions that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and therefore need to be included in computing earnings per share under the two-class method, as described in ASC 260-10. This guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and was applied retrospectively in accordance with the guidance. The adoption of this guidance during the first quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

In February 2008, the FASB issued an update to ASC 820 *Fair Value Measurements and Disclosures* which delayed the effective date for non-financial assets and liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. ASC 820, which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. Refer to Note 8 for additional information regarding the Company's fair value measurements.

In April 2009, the FASB issued an update to ASC 820 *Fair Value Measurements and Disclosures* related to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This guidance affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The update provides guidance for estimating fair value when the volume and level of market activity for an asset or liability have significantly decreased and determining whether a transaction was orderly. This guidance applies to all fair value measurements when appropriate. This guidance was effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively. The adoption of this guidance during the second quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

In April 2009, the FASB issued an update to ASC 320 *Investments - Debt and Equity Securities* related to recognition and presentation of other-than-temporary impairments. This guidance amends existing guidance for determining

whether an other-than-temporary impairment of debt securities has occurred. This update replaces the existing requirement that an entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security, and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. This guidance was effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance during the second quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

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In April 2009, the FASB issued an update to ASC 825 *Financial Instruments* which requires an entity to provide the annual disclosures required by ASC 825 in its interim consolidated financial statements. This guidance was effective for reporting periods ending after June 15, 2009. The adoption of this guidance during the second quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

In May 2009, the FASB issued ASC 855 *Subsequent Events*. ASC 855 requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. This statement should not result in significant changes in the subsequent events the entity reports, either through recognition or disclosure, in its financial statements. This guidance is effective for interim periods or fiscal years ending after June 15, 2009. The adoption of this guidance during the second quarter of fiscal year 2009 did not impact the Company's consolidated financial statements.

In June 2009, the FASB issued an update to ASC 860 *Transfers and Servicing* related to accounting for transfers of financial assets. This guidance eliminates the concept of a qualifying special-purpose and removes the exception from applying ASC 810 to qualifying special-purpose entities. This guidance is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years, and will not impact the Company's consolidated financial statements.

In June 2009, the FASB issued an update to ASC 810 *Consolidation*. The guidance requires ongoing assessments using a primarily qualitative approach rather than the quantitative-based risks and rewards calculation in determining which entity has a controlling interest in a variable interest entity. In addition, an additional reconsideration assessment should be completed when an event causes a change in facts or circumstances. Lastly, the guidance requires additional disclosures about an entity's involvement in variable interest entities. This guidance is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years, and will not impact the Company's consolidated financial statements.

In June 2009, the FASB issued Accounting Standard Codification 105 *Generally Accepted Accounting Principles*, or the Codification. The Codification is the sole source of authoritative U.S. accounting and reporting standards recognized by the FASB. Rules and interpretive releases of the SEC are also sources of authoritative GAAP. ASC 105 is effective for financial statements issued for periods ending after September 15, 2009. The adoption of ASC 105 during the third quarter of fiscal year 2009 did not have an impact on the Company's financial position or results of operations, but upon adoption of ASC 105, references within financial statement disclosures were modified to reference the Codification.

4. DISCONTINUED OPERATIONS**Value City**

As mentioned above, on January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City operations. As part of the transaction, Retail Ventures issued warrants (VCHI Warrants) to VCHI Acquisition Co. to purchase 150,000 RVI Common Shares, at an exercise price of \$10.00 per share, and exercisable within 18 months of January 23, 2008. The VCHI Warrants expired in June 2009. Retail Ventures received no net cash proceeds from the sale and paid a fee of \$500,000 to the purchaser. Retail Ventures recognized an aggregate after-tax loss related to the Value City disposition of \$76.7 million as of October 31, 2009, including a decrease in the loss of \$0.1 million recognized in the nine months ended October 31, 2009. The decrease in the loss consisted primarily of revaluations of the liabilities due to the passage of time for the guarantees recorded by Retail Ventures. As of October 31, 2009, Retail Ventures is still providing Value City with limited transition services.

Filene's Basement

As previously discussed, on April 21, 2009, RVI disposed of its Filene's Basement operations. RVI did not realize any cash proceeds from this transaction and will pay a fee of \$1.3 million to Buxbaum, of which \$0.7 million has been paid through October 31, 2009, and reimbursed \$0.4 million of Buxbaum's costs associated with the transaction. RVI also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. As of October 31, 2009, RVI had recorded a liability of \$1.9 million under lease obligations related to leases not assumed by

New Filene's Basement. RVI has recognized an after-tax gain of \$76.1 million on the transaction as of October 31, 2009. The \$76.1 million gain on the disposition of Filene's Basement is net of the write-off of the investment in Filene's Basement partially offset by the recording of guarantees of \$1.9 million, other transaction related expenses of \$3.4 million, impairment charges of \$1.8 million and income tax expenses of \$1.8 million.

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On August 16, 2006, Filene's Basement entered into a Promissory Note with Retail Ventures for \$27.6 million, due August 16, 2013. In addition, on January 3, 2008, Filene's Basement entered into a Promissory Note with Retail Ventures for \$25.0 million, due February 1, 2013. Each note between Filene's Basement and Retail Ventures provided for interest to accrue at 13% per annum. The notes and related interest receivable were fully reserved for during the first quarter of 2009. Effective November 3, 2009, RVI's claims against liquidating Filene's Basement in respect of these notes receivables were released in connection with a Settlement Agreement approved by the bankruptcy court. On May 4, 2009, liquidating Filene's Basement filed for bankruptcy protection. As a result of the filing, RVI has determined that the notes receivable from liquidating Filene's Basement, the related accrued interest receivable and accounts receivable from liquidating Filene's Basement were fully impaired and recorded bad debt expense of \$57.3 million related to these assets. In addition, DSW recorded bad debt expense related to the impairment of certain accounts receivable from liquidating Filene's Basement of \$0.6 million. Therefore, included in the consolidated results of operations of RVI for the nine months ended October 31, 2009, is bad debt expense of \$57.9 million related to the impairment of these items.

The following table presents the significant components of Filene's Basement operating results included in discontinued operations.

	Three months ended		Nine months ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
	(in thousands)			
Net sales	\$	\$ 112,150	\$ 63,351	\$ 314,781
Loss before income taxes		\$ (6,758)	\$ (31,195)	\$ (30,796)
Income tax benefit (provision)		196	(345)	275
Gain on sale	\$ 203		76,121	
Income (loss) from discontinued operations, net of tax Filene's Basement	\$ 203	\$ (6,562)	\$ 44,581	\$ (30,521)

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The following table presents the financial classification of assets and liabilities of Filene's Basement reflected as held for sale in the Condensed Consolidated Balance Sheets as of January 31, 2009 (in thousands):

	January 31, 2009 (in thousands)
Cash	\$ 4,776
Accounts receivable, net	1,670
Inventories	58,384
Prepaid expenses and other	1,848
Total current assets	66,678
Property and equipment, net	33,590
Tradenames and intangibles, net	4,255
Other non current assets	948
Total non current assets	38,793
Total assets	\$ 105,471
Accounts payable, net	\$ 18,805
Accrued expenses	17,642
Revolving credit facility	39,583
Total current liabilities	76,030
Other non current liabilities	36,055
Total non current liabilities	36,055
Total liabilities	\$ 112,085

As of January 31, 2009, Filene's Basement had accumulated other comprehensive loss of \$6.7 million related to the minimum pension liability.

5. STOCK BASED COMPENSATION**Retail Ventures Stock Compensation Plans**

The Company has an Amended and Restated 2000 Stock Incentive Plan (the "2000 Plan") that provides for the issuance of equity awards covering up to 13.0 million common shares, including stock options, stock appreciation rights and restricted stock, to management, key employees of Retail Ventures and affiliates, consultants (as defined in the plan), and non-employee directors of Retail Ventures. Options granted under the plan generally vest 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant.

The Company has an Amended and Restated 1991 Stock Option Plan that provided for the grant of equity awards covering up to 4.0 million common shares. Options granted under the plan are generally exercisable 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant.

During the nine months ended October 31, 2009 and November 1, 2008, included in income from continuing operations is stock based compensation expense of approximately \$5.2 million and \$4.3 million, respectively, which includes approximately \$4.2 million and \$3.3 million, respectively, of expenses recorded by DSW, before accounting for the noncontrolling interests.

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The following tables summarize the activity of the Company's stock options, stock appreciation rights (SARs) and restricted stock units (RSUs) for the nine months ended October 31, 2009 (in thousands):

	Stock Options	SARs	RSUs
Outstanding beginning of period	1,247	395	12
Granted	38		
Exercised	(256)		(6)
Forfeited	(212)	(200)	
Outstanding end of period	817	195	6
Exercisable end of period	767	175	

Stock Options

The following table illustrates the weighted-average assumptions used in the option-pricing model for options granted in each of the periods presented.

	Nine months ended	
	October 31, 2009	November 1, 2008
Assumptions:		
Risk-free interest rate	2.1%	2.9%
Expected volatility of Retail Ventures common shares	84.6%	56.1%
Expected option term	5.0 years	5.0 years
Expected dividend yield	0.0%	0.0%

The weighted-average grant date fair value of options granted in the nine months ended October 31, 2009 and November 1, 2008 was \$1.94 per share and \$3.15 per share, respectively.

Stock Appreciation Rights

Included in compensation expense recorded in continuing operations during the nine months ended October 31, 2009 and November 1, 2008 was \$0.7 million and \$0.8 million, respectively, relating to SARs.

Restricted Stock Units

The Company's continuing operations recorded compensation expense of less than \$0.1 million and \$0.1 million related to the restricted stock units in the nine months ended October 31, 2009 and November 1, 2008, respectively. The amount of restricted stock units accrued at both October 31, 2009 and January 31, 2009 was less than \$0.1 million.

Restricted Shares

The Company issues restricted common shares to certain key employees pursuant to individual employment agreements and certain other grants from time to time, which are approved by the Board of Directors. The agreements condition the vesting of the shares generally upon continued employment with the Company with such restrictions expiring over various periods ranging from three to five years. The market value of the shares at the date of grant is charged to expense on a straight-line basis over the period that the restrictions lapse. As of January 31, 2009, the Company had 50,000 restricted common shares outstanding, which were all attributed to the discontinued operations. All 50,000 restricted shares were forfeited during the quarter ended May 2, 2009.

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DSW Stock Compensation Plan

DSW has a 2005 Equity Incentive Plan (the Plan) that provides for the issuance of equity awards to purchase up to 7.6 million common shares, including stock options and restricted stock units to management, key employees of DSW and affiliates, consultants (as defined in the Plan) and directors of DSW. During the nine months ended October 31, 2009 and November 1, 2008, DSW recorded stock based compensation expense of approximately \$4.2 million and \$3.3 million, respectively.

The following tables summarize the activity of DSW's stock options and RSUs for the nine months ended October 31, 2009 (in thousands):

	Stock Options	RSUs
Outstanding beginning of period	2,125	226
Granted	946	179
Exercised	(52)	(73)
Forfeited	(378)	(63)
Outstanding end of period	2,641	269
Exercisable end of period	856	

Stock Options

The weighted-average grant date fair value of each option granted in the nine months ended October 31, 2009 and November 1, 2008 was \$5.10 per share and \$5.89 per share, respectively. The following table illustrates the weighted-average assumptions used in the Black-Scholes option-pricing model for options granted in each of the periods presented:

	Nine months ended	
	October 31, 2009	November 1, 2008
Assumptions:		
Risk-free interest rate	1.9%	2.8%
Expected volatility of DSW common stock	57.6%	48.1%
Expected option term	4.9 years	4.9 years
Expected dividend yield	0.0%	0.0%

Restricted Stock Units

The total aggregate intrinsic value of nonvested restricted stock units at October 31, 2009 was \$5.2 million. As of October 31, 2009, the total compensation cost related to nonvested restricted stock units not yet recognized was approximately \$2.5 million with a weighted average expense recognition period remaining of 1.8 years. The weighted average exercise price for all restricted stock units is zero.

Director Stock Units

DSW issues stock units to directors who are not employees of DSW or RVI. During the nine months ended October 31, 2009 and November 1, 2008, DSW granted 45,895 and 43,887 director stock units, respectively, and expensed \$0.6 million in each respective nine month period for these grants. As of October 31, 2009, 129,096 director stock units had been issued and no director stock units had been settled.

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6. INVESTMENTS

The Company determines the appropriate balance sheet classification of its investments at the time of purchase and evaluates the classification at each balance sheet date. If the Company has the intent and ability to hold the investments to maturity, investments are classified as held-to-maturity. Held-to-maturity securities are stated at amortized cost plus accrued interest. As of October 31, 2009, the Company had held-to-maturity investments of \$8.4 million in tax exempt term notes that mature within the next year. All other investments are classified as available-for-sale and stated at current market value.

Short-term investments classified as available-for-sale as of October 31, 2009 and January 31, 2009 include tax exempt, tax advantaged and taxable bonds, variable rate demand notes, tax exempt commercial paper and certificates of deposit. The Company also participates in the Certificate of Deposit Account Registry Service® (CDARS). CDARS provides FDIC insurance on deposits of up to \$50.0 million. Certificates of deposit mature every 28 to 182 days. The other types of short-term investments generally have interest reset dates of every 7 days. Despite the long-term nature of the stated contractual maturities of certain short-term investments, the Company has the ability to quickly liquidate these securities. As a result, the Company has classified these securities as available-for-sale.

As of October 31, 2009, the Company reclassified its auction rate security as long-term and the unrealized loss on its auction rate security from a temporary to an other-than-temporary impairment. The Company believes the impairment is other-than-temporary due to the financial condition and future business prospects of the underlying issuer, as well as the duration of the impairment. The Company received preferred shares as distributions-in-kind on two of its auction rate securities and sold these preferred shares for a net realized gain of \$0.1 million in fiscal 2009.

The following table discloses the major categories of the Company's investments as of October 31, 2009 and January 31, 2009:

	Short-term investments, net		Long-term investments, net	
	October 31, 2009	January 31, 2009	October 31, 2009	January 31, 2009
	(in thousands)			
Available for sale:				
Tax exempt, tax advantaged and taxable bonds	\$ 125,639	\$ 65,829		
Variable rate demand notes	13,160	16,580		
Tax exempt commercial paper	7,200	2,000		
Certificates of deposit	15,000	14,000		
Auction rate securities		3,650	\$ 2,500	\$ 2,400
Other-than-temporary impairment included in earnings			(754)	(1,134)
Unrealized losses included in accumulated other comprehensive loss		(655)		
Total available-for-sale investments	160,999	101,404	1,746	1,266
Held-to-maturity:				
Tax exempt term notes	8,430			
Total investments	\$ 169,429	\$ 101,404	\$ 1,746	\$ 1,266

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7. LONG-TERM OBLIGATIONS AND WARRANT LIABILITIES

Long-term obligations of continuing operations consist of the following (in thousands):

	October 31, 2009	January 31, 2009
Credit facilities:		
Senior Loan Agreement related parties		\$ 250
Premium Income Exchangeable Securities (PIES)	\$ 133,750	133,750
Discount on PIES	(4,556)	(6,174)
	129,194	127,826
Less: current maturities		(250)
Total long term obligations of continuing operations	\$ 129,194	\$ 127,576

Letters of credit outstanding under DSW revolving credit facility	\$ 10,849	\$ 17,709
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Availability under DSW revolving credit facility	\$ 139,151	\$ 132,291
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DSW has a \$150 million secured revolving credit facility with a term of five years that will expire on July 5, 2010. Under this facility, the Company and its subsidiaries are named as co-borrowers. The facility has borrowing base restrictions and provides for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. DSW's obligations under this facility are secured by a lien on substantially all of its and one of its subsidiary's personal property and a pledge of its shares of DSW Shoe Warehouse, Inc. (DSWSW). In addition, the secured revolving credit facility contains usual and customary restrictive covenants relating to the management and the operation of the business. These covenants, among other things, restrict DSW's ability to grant liens on its assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem its stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time DSW utilizes over 90% of its borrowing capacity under the facility, DSW must comply with a fixed charge coverage ratio test set forth in the facility documents. DSW intends to refinance the DSW Revolving Loan on a long-term basis. As of October 31, 2009 and January 31, 2009, there were no outstanding borrowings and there was availability under the facility of \$139.2 million and \$132.3 million, respectively. DSW had outstanding letters of credit of \$10.8 million and \$17.7 million, respectively, as of October 31, 2009 and January 31, 2009.

Deferred Rent

Many of the Company's operating leases contain predetermined fixed increases of the minimum rentals during the initial lease terms. For these leases, the Company recognizes the related rental expense on a straight-line basis over the original term of the lease. The Company records the difference between the amount charged to expense and the rent paid as deferred rent and begins amortizing such deferred rent upon the delivery of the lease location by the lessor. The deferred rent included in the other non-current liabilities, excluding discontinued operations, was \$34.0 million and \$33.5 million at October 31, 2009 and January 31, 2009, respectively.

Construction and Tenant Allowances

The Company receives cash allowances from landlords, which are deferred and amortized on a straight-line basis over the original terms of the lease as a reduction of rent expense. Construction and tenant allowances included in other non-current liabilities, excluding discontinued operations, were \$60.8 million and \$63.7 million at October 31, 2009 and January 31, 2009, respectively.

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Derivative Instruments

The Company has derivative instruments, warrants and the conversion feature of convertible debt, that it has issued in conjunction with past financing activities. As of October 31, 2009 and January 31, 2009, Retail Ventures did not have any derivatives designated as hedges nor has Retail Ventures entered into derivative instruments for trading purposes. ASC 815 *Derivatives and Hedging* requires recognition of all qualifying derivative instruments as either assets or liabilities on the balance sheet at fair value. Retail Ventures utilizes the Black-Scholes pricing model to compute the fair value of its derivative instruments. The Company's derivative instruments outstanding as of October 31, 2009, are described in detail below.

\$143,750,000 Premium Income Exchangeable SecuritiesSM (PIES)

The Premium Income Exchangeable SecuritiesSM (PIES) bear a coupon at an annual rate of 6.625% of the principal amount and mature on September 15, 2011. Except to the extent RVI exercises its cash settlement option, the PIES are mandatorily exchangeable, on the maturity date, into Class A Common Shares of DSW, no par value per share, which are issuable upon exchange of DSW Class B Common Shares, no par value per share, beneficially owned by RVI. On the maturity date, each holder of the PIES will receive a number of DSW Class A Common Shares per \$50.0 principal amount of PIES equal to the exchange ratio described in the RVI prospectus filed with the SEC on August 11, 2006, or if RVI elects, the cash equivalent thereof or a combination of cash and DSW Class A Common Shares. The exchange ratio is equal to the number of DSW Class A Common Shares determined as follows: (i) if the applicable market value of DSW Class A Common Shares equals or exceeds \$34.95, the exchange ratio will be 1.4306 shares; (ii) if the applicable market value of DSW Class A Common Shares is less than \$34.95 but greater than \$27.41, the exchange ratio will be between 1.4306 and 1.8242 shares; and (iii) if the applicable market value of DSW Class A Common Shares is less than or equal to \$27.41, the exchange ratio will be 1.8242 shares, subject to adjustment as provided in the PIES. The maximum aggregate number of DSW Class A Common Shares deliverable upon exchange of the PIES is 5,244,575 DSW Class A Common Shares subject to adjustment as provided in the PIES.

The embedded exchange feature of the PIES is accounted for as a derivative, which is recorded at fair value based upon the income approach using the Black-Scholes pricing model in accordance with ASC 820 *Fair Value Measurements and Disclosures* using level 2 inputs such as current market rates and changes in fair value are reflected in the statement of operations. Accordingly, the accounting for the embedded derivative addresses the variations in the fair value of the obligation to settle the PIES when the market value exceeds or is less than the threshold appreciation price. The fair value of the conversion feature at the date of issuance of \$11.7 million was equal to the amount of the discount of the PIES and is being amortized into interest expense over the term of the PIES. As of October 31, 2009, the discount on the PIES has a remaining amortization period of 1.9 years. The amount of interest expense recognized and the effective interest rate for the PIES were as follows (in thousands):

	Nine months ended	
	October 31, 2009	November 1, 2008
Contractual interest expense	\$ 7,090	\$ 7,195
Amortization of debt discount	1,618	1,503
Total interest expense	\$ 8,708	\$ 8,698

Effective interest rate	8.6%	8.6%
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During the three and nine months ended October 31, 2009, the Company recorded a non-cash charge of \$21.6 million and \$30.8 million, respectively, related to the change in fair value of the conversion feature of the PIES. During the three and nine months ended November 1, 2008, the Company recorded a non-cash charge of \$2.9 million and a

non-cash reduction of expense of \$23.9 million, respectively, related to the change in fair value of the conversion feature of the PIES. As of October 31, 2009 and January 31, 2009, the fair value asset recorded for the conversion feature was \$46.9 million and \$77.8 million, respectively.

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The fair value of the conversion feature of the PIES at October 31, 2009 and January 31, 2009 was estimated using the Black-Scholes Pricing Model with the following assumptions:

	October 31, 2009	January 31, 2009
Assumptions:		
Risk-free interest rate	1.5%	3.0%
Expected volatility of common shares	72.9%	58.0%
Expected option term	1.9 years	2.6 years
Expected dividend yield	0.0%	0.0%

Warrants**VCHI Acquisition Co. Warrants**

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores business to VCHI Acquisition Co., a newly formed entity owned by VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC. As part of the transaction, Retail Ventures issued warrants (the VCHI Warrants) to VCHI Acquisition Co. to purchase 150,000 RVI Common Shares, at an exercise price of \$10.00 per share, and exercisable within 18 months of January 23, 2008. The warrants expired in June 2009.

An update to ASC 815-40, *Derivatives and Hedging, Contracts in Entity's Own Equity*, resulted in the redesignation and reclassification of the VCHI Warrants from Equity to Liabilities within the balance sheets during the quarter ended May 2, 2009. In addition, the VCHI Warrants were marked to market and continued to be marked to market through their expiration date. A charge of \$0.1 million was recorded in other comprehensive income as of February 1, 2009, which represented the change in fair value of the VCHI Warrants from the date of issuance to the date of adoption of ASC 815-40. During the nine months ended October 31, 2009, the Company recorded an immaterial charge related to the change in fair value of the VCHI warrants.

Term Loan Warrants and Conversion Warrants

As of October 31, 2009, the Company had outstanding 3,683,959 Term Loan Warrants and no Conversion Warrants (together, the Warrants). As of January 31, 2009, the Company had outstanding 3,683,959 Term Loan Warrants and 8,333,333 Conversion Warrants. On June 10, 2009, the 8,333,333 outstanding Conversion Warrants expired and Retail Ventures repaid in full the \$250,000 remaining balance along with the related accrued interest on the Senior Non-Convertible Loan, as amended and restated on August 16, 2006, made by Schottenstein Stores Corporation in favor of Value City, which loan was assumed by RVI in connection with the disposition of its 81% ownership interest in the Value City operations on January 23, 2008. The Term Loan Warrants expire on June 11, 2012.

For the three and nine months ended October 31, 2009, the Company recorded a non-cash charge for the change in the fair value of the Warrants of \$9.1 million and \$10.0 million, respectively, of which the portion held by related parties was a non-cash charge of \$4.3 million and \$3.7 million respectively. For the three and nine months ended November 1, 2008, the Company recorded a non-cash reduction of expenses of \$10.8 million and \$37.9 million, respectively, for the change in fair value of the Term Loan Warrants and Conversion Warrants, respectively, of which the portion held by related parties was a non-cash reduction of expenses of \$8.5 million and \$31.0 million, respectively. No tax benefit has been recognized in connection with these charges. These derivative instruments do not qualify for hedge accounting under ASC 815 *Derivatives and Hedging* therefore; changes in the fair values are recognized in earnings in the period of change. As the Warrants may be exercised for either common shares of RVI or common shares of DSW owned by RVI, the settlement of the Warrants will not result in a cash outlay by the Company.

In accordance with ASC 815 *Derivatives and Hedging* and ASC 820 *Fair Value Measurements and Disclosures*, Retail Ventures estimates the fair values of derivatives based on the income approach using the Black-Scholes pricing model using level 2 inputs such as current market rates and records all derivatives on the balance sheet at fair value.

The fair value of the Term Loan Warrants was \$16.3 million, of which the portion held by related parties was \$7.6 million at October 31, 2009. The fair value of the Term Loan Warrants and Conversion Warrants was \$6.3 million, of which the portion held by related parties was \$3.9 million at January 31, 2009.

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The values ascribed to the Term Loan Warrants as of October 31, 2009 and the values ascribed to the Term Loan Warrants and Conversion Warrants as of January 31, 2009 were estimated using the Black-Scholes Pricing Model with the following assumptions. As previously noted, the Conversion Warrants expired on June 10, 2009.

	Term Warrants		Conversion Warrants
	October 31, 2009	January 31, 2009	January 31, 2009
Assumptions:			
Risk-free interest rate	1.5%	1.3%	0.3%
Expected volatility of common shares	107.5%	95.9%	114.3%
Expected option term	2.6 years	3.4 years	0.4 years
Expected dividend yield	0.0%	0.0%	0.0%

The fair values and balance sheet locations of the Company's derivative assets (liabilities) are as follows (in thousands):

	Balance Sheet Location	October 31, 2009	January 31, 2009
Warrants	Warrant liability	\$ (16,260)	\$ (6,292)
Conversion feature of long-term debt	Conversion feature of long-term debt	46,943	77,761
Total		\$ 30,683	\$ 71,469

The effect of derivative instruments on the Company's condensed consolidated statements of operations is as follows (in thousands):

	Three months ended		Nine Months ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Warrants	\$ (9,076)	\$ 10,760	\$ (9,960)	\$ 37,876
Conversion feature of long-term debt	(21,625)	(2,902)	(30,818)	23,883
(Expense) income related to the change in fair value of derivative instruments	\$ (30,701)	\$ 7,858	\$ (40,778)	\$ 61,759

8. FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, fair value is a market-based measurement based on assumptions of the market participants. As a basis for these assumptions, the Company classifies its fair value measurements under the following fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are publicly accessible. Active markets have frequent transactions with enough volume to provide ongoing pricing information.

Level 2 inputs are other than level 1 inputs that are directly or indirectly observable. These can include unadjusted quoted prices for similar assets or liabilities in active markets, unadjusted quoted prices for identical assets or liabilities in inactive markets, or other observable inputs.

Level 3 inputs are unobservable inputs.

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Financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2009 consisted of the following (in thousands):

	Balance at October 31, 2009	Level 1	Level 2	Level 3
Assets:				
Cash and equivalents	\$ 108,723	\$ 108,723		
Short-term investments, net	169,249		\$ 169,249	
Long-term investments, net	1,746			\$ 1,746
Conversion feature of long-term debt	46,943		46,943	
	\$ 326,661	\$ 108,723	\$ 216,192	\$ 1,746
Liabilities:				
Warrant liability	\$ 16,260		\$ 16,260	
	\$ 16,260		\$ 16,260	

Cash and equivalents primarily represent cash deposits and investments in money market funds held with financial institutions, as well as credit card receivables that settle in fewer than three days. The Company's investment in an auction rate security is recorded at fair value using an income approach valuation model that uses level 3 inputs such as the financial condition of the issuers of the underlying securities, expectations regarding the next successful auction, risks in the auction rate securities market and other various assumptions. The Company's other types of investments and derivative instruments are valued using a market based approach using level 2 inputs such as prices of similar assets in active markets.

The carrying amount of accounts receivable approximates fair value because of the relatively short average maturity of the instruments and no significant change in interest rates. The book value of notes payable and long-term debt approximates fair value. The carrying amount of the revolving line of credit approximates fair value as a result of the variable rate-based borrowings. The carrying amount of the term loan and subordinated debt also approximates fair value. See Note 6 for fair value disclosures regarding investments and Note 7 for fair value disclosure regarding long-term obligations.

The activity related to level 3 fair value measurements for the three months ended October 31, 2009 is summarized below (in thousands):

	Short-term investments, net	Long-term investments, net
Carrying value as of August 1, 2009	\$ 1,771	
Transfers between short-term and long-term investments, net	(1,771)	\$ 1,771
Reclassification of unrealized losses on available-for-sale securities to an other-than-temporary impairment		729
Other-than-temporary impairment included in earnings		(754)
Carrying value as of October 31, 2009	\$	\$ 1,746

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The activity related to level 3 fair value measurements for the nine months ended October 31, 2009 is summarized below (in thousands):

	Short-term investments, net	Long-term investments, net
Carrying value as of January 31, 2009	\$ 1,845	\$ 1,266
Transfer out of Level 3		(1,266)
Transfers between short-term and long-term investments, net	(1,845)	1,845
Reclassification of unrealized losses on available-for-sale securities to an other-than-temporary impairment		655
Other-than-temporary impairment included in earnings		(754)
Carrying value as of October 31, 2009	\$	\$ 1,746

Non-financial assets and liabilities measured at fair value on a nonrecurring basis as of October 31, 2009 consisted of the following (in thousands):

	Balance at October 31, 2009	Level 1	Level 2	Level 3
Assets:				
Long-lived assets to be held and used	\$ 762			\$ 762
	\$ 762			\$ 762

Long-lived assets to be held and used with a carrying amount of \$1.3 million were written down to their fair value of \$0.8 million, resulting in an impairment charge of \$0.5 million, which was included in earnings for the nine months ended October 31, 2009.

The Company periodically evaluates the carrying amount of its long-lived assets, primarily property and equipment, and finite life intangible assets when events and circumstances warrant such a review to ascertain if any assets have been impaired. The carrying amount of a long-lived asset or asset group is considered impaired when the carrying value of the asset or asset group exceeds the expected future cash flows from the asset or asset group. The Company reviews are conducted at the lowest identifiable level, which includes a store. The impairment loss recognized is the excess of the carrying value of the asset or the asset group over its fair value, based on a discounted cash flow analysis using a discount rate determined by management. Should an impairment loss be realized, it will generally be included in operating expenses. The impairment charges were recorded within the DSW reportable segment.

9. PENSION BENEFIT PLAN

The Company was not required to make any contributions during the nine months ended October 31, 2009 to meet minimum funding requirements under the Filene's Basement defined benefit pension plan (the Pension Plan). Prior to fiscal 2009, the Pension Plan liability was included within noncurrent liabilities held for sale. The following table shows the components of the Pension Plan (in thousands):

Three months ended		Nine months ended	
October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008

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Interest cost	\$	244	\$	234	\$	732	\$	701
Expected return on plan assets		(189)		(282)		(567)		(844)
Amortization of transition asset		(9)		(9)		(27)		(28)
Amortization of net loss		143		111		429		332
Net periodic cost	\$	189	\$	54	\$	567	\$	161

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10. EARNINGS PER SHARE

Basic earnings (loss) per share are based on the net income (loss) and a simple weighted average of common shares outstanding. Diluted earnings (loss) per share reflects the potential dilution of common shares, related to outstanding stock options, SARs and Warrants, calculated using the treasury stock method. The numerator for the diluted earnings (loss) per share calculation is the net income (loss). The denominator is the weighted average number of shares outstanding.

The following table shows the composition of the number of shares used for the computations of dilutive earnings per share (in thousands):

	Three months ended		Nine months ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Weighted average shares outstanding	48,938	48,681	48,855	48,665
Assumed exercise of dilutive SARs				9
Assumed exercise of dilutive stock options		136		187
Assumed exercise of dilutive Term Loan Warrants				326
Assumed exercise of dilutive Conversion Warrants				616
Number of shares for computations of dilutive earnings per share	48,938	48,817	48,855	49,803

The amount of securities outstanding at October 31, 2009 and November 1, 2008 that were not included in the computation of dilutive earnings per share because the equity unit's exercise price was greater than the average market price of the common shares for the period and, therefore, the effect would be anti-dilutive, was as follows (in thousands):

	October 31, 2009	November 1, 2008
SARs	159	364
Stock options	309	308
VCHI Warrants		150
Term Loan Warrants		
Total of all potentially dilutive instruments	468	822

11. TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS

The balance sheet caption Accumulated Other Comprehensive Loss was \$6.6 million and \$0.7 million at October 31, 2009 and January 31, 2009, respectively. At October 31, 2009, \$6.7 million of the Accumulated Other Comprehensive Loss related to the Filene's Basement Pension Plan was partially offset by \$0.1 million related to the reclassification of unrealized losses on available-for-sale securities to an other-than-temporary impairment, net of income tax. At January 31, 2009, the Accumulated Other Comprehensive Loss primarily related to the unrealized loss on available-for-sale securities, net of income tax. The Company believed it was more likely than not that it would not be able to utilize the related deferred tax assets and recorded a valuation allowance against the related deferred tax assets

at January 31, 2009. For the nine months ended October 31, 2009 the comprehensive loss was \$15.7 million. For the nine months ended November 1, 2008 the comprehensive income was \$68.7 million.

12. INCOME TAXES

Effective February 4, 2007, in accordance with ASC 740 *Income Taxes*, the Company establishes valuation allowances for deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. The Company has determined that there is a probability that future taxable income may not be sufficient to fully utilize deferred tax assets. The valuation allowance as of October 31, 2009 and January 31, 2009 was \$57.3 million and \$50.7 million, respectively. Based on available data, the Company believes it is more likely than not that the remaining deferred tax assets will be realized.

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The tax rate of negative 28.9% for the nine month period ended October 31, 2009 reflects the impact of the change in fair value of warrants, included in book income but not tax income and an increase in valuation allowance of \$6.6 million on federal and state deferred tax assets.

The Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for the fiscal years prior to 2000. The Company is currently under audit by the IRS for 2006, and there are several state audits and appeals ongoing for fiscal years from 2000 through 2006. The Company estimates the range of possible changes that may result from the examinations to be insignificant at this time.

Consistent with its historical financial reporting, the Company has elected to classify interest expense related to income tax liabilities, when applicable, as part of the interest expense in its condensed consolidated statement of operations rather than income tax expense. The Company will continue to classify income tax penalties as part of operating expenses in its condensed consolidated statements of income. \$1.2 million and \$1.1 million was accrued for the payment of interest and penalties at October 31, 2009 and January 31, 2009, respectively.

13. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

A supplemental schedule of cash flow information for the nine month periods is presented below (in thousands):

	October 31, 2009	November 1, 2008
Cash paid during the period for:		
Interest	\$ 7,143	\$ 7,143
Income taxes	\$ 12,536	\$ 13,047
Noncash activities:		
Decrease in accounts payable and accrued expenses from asset purchases	\$ (1,910)	\$ (7,257)

14. SEGMENT REPORTING

The Company is operated in two segments: DSW and Corporate. All of the operations are located in the United States. As a result of RVI's disposition of the Filene's Basement operations on April 21, 2009, the results of the previously disclosed Filene's Basement segment are included in discontinued operations and Filene's Basement is therefore no longer included as a reportable segment of the Company.

The Company has identified its segments based on chief operating decision maker responsibilities and measures segment profit (loss) as operating profit (loss), which is defined as profit (loss) before interest expense, income taxes and minority interest. The goodwill balance of \$25.9 million outstanding at October 31, 2009 and January 31, 2009 is recorded in the DSW segment. The Corporate segment includes activities that are not attributable to the DSW segment.

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The tables below present segment information for the three and nine months ended October 31, 2009 and November 1, 2008 and as of October 31, 2009 and January 31, 2009 (in thousands):

	DSW	Corporate	Total
<i>Three months ended October 31, 2009</i>			
Net Sales	\$ 444,621		\$ 444,621
Operating profit (loss)	44,721	\$ (34,212)	10,509
Depreciation and amortization	11,691	110	11,801
Interest expense	176	3,060	3,236
Interest income	621	5	626
(Provision) benefit for income taxes	(17,781)	6,702	(11,079)
Capital expenditures	3,636		3,636

	DSW	Corporate	Total
<i>Three months ended November 1, 2008</i>			
Net Sales	\$ 391,355		\$ 391,355
Operating profit	20,917	\$ 7,858	28,775
Depreciation and amortization	8,698	440	9,138
Interest expense	270	2,971	3,241
Interest income	956	1,939	2,895
Provision for income taxes	(8,425)	(1,986)	(10,411)
Capital expenditures	22,806	8	22,814

	DSW	Corporate	Total
<i>Nine months ended October 31, 2009</i>			
Net Sales	\$ 1,199,957		\$ 1,199,957
Operating profit (loss)	68,185	\$ (106,562)	(38,377)
Depreciation and amortization	34,415	367	34,782
Interest expense	547	9,131	9,678
Interest income	1,824	67	1,891
(Provision) benefit for income taxes	(27,498)	13,991	(13,507)
Capital expenditures	16,776		16,776

	DSW	Corporate	Total
<i>Nine months ended November 1, 2008</i>			
Net Sales	\$ 1,114,794		\$ 1,114,794
Operating profit	54,602	\$ 61,759	116,361
Depreciation and amortization	24,409	1,700	26,109
Interest expense	848	9,583	10,431
Interest income	2,677	5,791	8,468
Provision for income taxes	(22,008)	(2,641)	(24,649)
Capital expenditures	66,732	19	66,751

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	DSW	Corporate	Total
<i>As of October 31, 2009</i>			
Total assets	\$ 856,137	\$ 69,333	\$ 925,470
<i>As of January 31, 2009</i>			
Total assets	\$ 719,615	\$ 128,676	\$ 848,291

15. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal proceedings that are incidental to the conduct of its business. The Company estimates the range of liability related to pending litigation where the amount of the range of loss can be estimated. The Company records its best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss, the Company records the most likely estimated liability related to the claim. In the opinion of management, the amount of any potential liability with respect to current legal proceedings will not be material to the Company's results of operations or financial condition. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise the estimates as needed. Revisions in its estimates and potential liability could materially impact the Company's results of operations and financial condition.

Guarantees

As discussed above, RVI completed the disposition of an 81% ownership interest in its Value City business segment on January 23, 2008. Retail Ventures or its wholly-owned subsidiary, Retail Ventures Services, Inc. (RVS), has guaranteed and in certain circumstances may be responsible for certain liabilities of Value City. If Value City does not pay creditors whose obligations RVI and RVS had guaranteed, RVI may become subject to various risks associated with such refusal to pay creditors or any insolvency or bankruptcy proceedings.

As of October 31, 2009, RVI had recorded an estimated potential liability of \$12.3 million, of which \$2.4 million is classified as short-term, for the guarantees of Value City commitments including, but not limited to: guaranteed severance for certain Value City employees of less than \$0.1 million; amounts recognized under certain income tax liabilities of approximately \$5.2 million; amounts owed under certain employee benefit plans of approximately \$4.1 million for the amount that may be due if the plans are not fully funded on a termination basis; approximately \$0.6 million for the guarantee of certain workers compensation claims for events prior to the disposition date and other amounts totaling \$2.4 million. As of January 31, 2009, RVI had recorded an estimated liability of \$12.9 million for the guarantees of Value City commitments described above as well as guarantees with various financing institutions for Value City inventory purchases made prior to the disposition date. The reduction in the liability from January 31, 2009 to October 31, 2009 was primarily due to payments made and revaluation of guarantees due to the passage of time. Changes in the amount of guarantees are included in the loss from discontinued operations on the statements of operations.

If the underlying obligations are paid down or otherwise liquidated by Value City, subject to certain statutory requirements, RVI will recognize a reduction of the associated liability. In certain instances, RVI or RVS may have the ability to reduce the estimated potential liability of \$12.3 million. The amount of any reduction is not reasonably estimable.

As discussed above, on April 21, 2009, RVI disposed of its Filene's Basement operations. RVI agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. As of October 31, 2009, RVI had recorded a liability of \$1.9 million for the guarantees of Filene's Basement commitments related to leases not assumed by New Filene's Basement.

If the underlying obligations are paid down or otherwise liquidated by Filene's Basement, subject to certain statutory requirements, RVI will recognize a reduction of the associated liability. In certain instances, RVI or RVS may have the ability to reduce the estimated potential liability of \$1.9 million. The amount of any reduction is not reasonably

estimable.

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Contractual Obligations

The Company has continued to enter into various construction commitments, including capital items to be purchased for projects that were under construction or for which a lease has been signed. The obligations under these commitments aggregated \$0.2 million at October 31, 2009. In addition, DSW has signed lease agreements for five new store locations that are expected to open over the next 18 months, with total annual rent of approximately \$1.6 million. Associated with the new lease agreements, the Company will receive \$1.9 million of construction and tenant allowances which will offset future capital expenditures.

16. SUBSEQUENT EVENTS

As previously disclosed in RVI's Current Report on Form 8-K filed with the SEC on September 28, 2009, RVI and DSW entered into a settlement agreement, dated September 25, 2009, with liquidating Filene's Basement and its related debtors and the Official Committee of Unsecured Creditors appointed in the Chapter 11 case for the debtors. On November 3, 2009, the settlement agreement was approved by the Bankruptcy Court for the District of Delaware. As a result of the court's approval of the settlement agreement, RVI's claims in respect of \$52.6 million in notes receivable from liquidating Filene's Basement were released; RVI assumed the rights and obligations related to (and agreed to indemnify liquidating Filene's Basement with regard to certain matters arising out of) the liquidating Filene's Basement defined benefit pension plan; and liquidating Filene's Basement and the creditors' committee agreed to allow certain general unsecured claims for amounts owed to RVI and DSW. The parties also agreed to certain provisions affecting the proper allocation of proceeds paid to RVI or liquidating Filene's Basement in connection with specified third party litigation and to certain provisions related to the debtors' recovery from third parties that are the beneficiaries of letters of credit or hold collateral related to workers' compensation claims. The settlement agreement also provides for certain mutual releases among the debtors, the creditors' committee, RVI, DSW and other parties.

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

As used in this Quarterly Report on Form 10-Q (this Report) and except as the context otherwise may require, RVI, Retail Ventures Company, we, us, and our refers to Retail Ventures, Inc. and its wholly-owned subsidiary DSW (DSW), a controlled subsidiary, and DSW's wholly-owned subsidiaries, including but not limited to, DSW Shoe Warehouse, Inc. (DSWSW).

OVERVIEW

Retail Ventures is a holding company operating retail stores in one of its two segments. DSW is a leading U.S. branded footwear specialty retailer operating 306 shoe stores in 39 states as of October 31, 2009. In addition, DSW also operates 356 leased shoe departments for four other retailers and sell shoes and accessories through dsw.com. DSW offers a large selection of better-branded merchandise. DSW's typical customers are brand, quality and style-conscious shoppers who have a passion for footwear and accessories. The Corporate segment consists of all corporate assets, liabilities and expenses that are not attributable to the DSW segment.

As of October 31, 2009, Retail Ventures owned Class B Common Shares of DSW representing approximately 62.7% of DSW's outstanding common shares and approximately 93.1% of the combined voting power of such shares. DSW is a controlled subsidiary of Retail Ventures and its Class A Common Shares are traded on the New York Stock Exchange under the symbol DSW.

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores (Value City) business to VCHI Acquisition Co., a newly formed entity owned by VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC. Retail Ventures received no net cash proceeds from the sale, paid a fee of \$500,000 to the purchaser, and recognized an after-tax loss of \$76.7 million on the transaction as of October 31, 2009. As part of the transaction, Retail Ventures, Inc. issued warrants to VCHI Acquisition Co. to purchase 150,000 RVI common shares, at an exercise price of \$10.00 per share, and exercisable within 18 months of January 23, 2008. The warrants expired in June 2009. To facilitate the change in ownership and operation of Value City Department Stores, Retail Ventures agreed to provide or arrange for the provision of certain transition services principally related to information technology, finance and human resources to Value City Department Stores for a period of one year unless otherwise extended by both parties. On October 26, 2008, Value City filed for bankruptcy protection and announced that it would close its remaining stores. The Company negotiated an agreement with Value City to continue to provide services post bankruptcy filing, including risk management, financial services, benefits administration, payroll and information technology services, in exchange for a weekly payment. As of October 31, 2009, the Company is still providing Value City with limited transition services.

On April 21, 2009, Retail Ventures disposed of Filene's Basement, Inc. and certain related entities to FB II Acquisition Corp., a newly formed entity owned by Buxbaum Holdings, Inc. (Buxbaum). Retail Ventures did not realize any cash proceeds from this transaction, will pay a fee of \$1.3 million to Buxbaum, of which \$0.7 million has been paid through October 31, 2009, and has reimbursed \$0.4 million of Buxbaum's costs associated with the transaction. Retail Ventures has also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. Retail Ventures has recognized an after-tax gain of \$76.1 million on the transaction as of October 31, 2009. On May 4, 2009, Filene's Basement filed for bankruptcy protection. On June 18, 2009, following bankruptcy court approval, SYL LLC, a subsidiary of Syms Corp (Syms), purchased certain assets of Filene's Basement. All references to liquidating Filene's Basement refer to the debtor, formerly known as Filene's Basement Inc., and its debtor subsidiaries remaining after the asset purchase by a subsidiary of Syms. All references to New Filene's Basement refer to the stores operated by Syms. The Company negotiated with Syms to provide transition services in exchange for payment. As of October 31, 2009, the Company is still providing transition services to Syms.

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of the Company as a whole. This discussion should be read in conjunction with our condensed consolidated financial statements and accompanying notes as of October 31, 2009.

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Cautionary Statement Regarding Forward-Looking Information for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

Some of the statements in this Quarterly Report on Form 10-Q contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potentially, continues, may, should, seeks, approximately, predicts, intends, plans, estimates, anticipates, or words or the negative version of those words. Any forward-looking statements contained in this Quarterly Report on Form 10-Q are based upon our historical performance and on current plans, estimates and expectations and assumptions relating to our operations, results of operations, financial condition, growth strategy and liquidity. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to numerous risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to the risks discussed in Part I, Item 1A, Risk Factors in each of our Annual Report on Form 10-K for the fiscal year ended January 31, 2009, as filed with the Securities and Exchange Commission (the SEC) on April 30, 2009 (the 2008 Annual Report), and other factors discussed from time to time in our other filings with the SEC, some important factors that could cause actual results, performance or achievements for the Company to differ materially from those discussed in forward-looking statements include, but are not limited to, the following:

our ability to manage and enhance liquidity;

DSW's success in opening and operating new stores on a timely and profitable basis;

continuation of DSW's supply agreements and the financial condition of its leased business partners;

maintaining good relationships with our vendors;

our ability to anticipate and respond to fashion trends;

fluctuation of our comparable store sales and quarterly financial performance;

the realization of our bankruptcy claims related to liquidating Filene's Basement and Value City;

the impact of the disposition of Filene's Basement and of a majority interest in Value City and the reliance on remaining subsidiaries to pay indebtedness and intercompany service obligations;

the risk of Value City and liquidating Filene's Basement not paying us or their creditors, for which Retail Ventures may have some liability;

the risk of New Filene's Basement not paying obligations related to the assets it has assumed from liquidating Filene's Basement if such obligations are subject to ongoing guarantee by us;

the impact of Value City and Filene's Basement on our liquidity;

disruption of our distribution operations;

our dependence on DSW for key services;

failure to retain our key executives or attract qualified new personnel;

our competitiveness with respect to style, price, brand availability and customer service;
declining general economic conditions;
risks inherent to international trade with countries that are major manufacturers of footwear;
the success of dsw.com;
lease of an office facility;
liquidity and investment risks related to our investments; and

DSW's ability to secure a replacement credit facility upon the expiration of its existing credit facility. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results, performance or achievements may vary materially from what we may have projected. Furthermore, new factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, RVI undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

Table of Contents**CRITICAL ACCOUNTING POLICIES**

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the results of operations and financial condition as reflected in our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. As discussed in the Notes to the Consolidated Financial Statements that are included in our 2008 Annual Report, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including, but not limited to, those related to inventory valuation, depreciation, amortization, recoverability of long-lived assets including intangible assets, the calculation of retirement benefits, estimates for self-insurance reserves for health and welfare, workers' compensation and casualty insurance, income taxes, contingencies and litigation. Management bases its estimates and judgments on its historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and in some cases, actuarial and appraisal techniques. We constantly re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

While we believe that our historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated financial statements, we cannot guarantee that our estimates and assumptions will be accurate. As the determination of these estimates requires the exercise of judgment, actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

We believe the following represent the most critical estimates and assumptions, among others, used in the preparation of our consolidated financial statements. We have discussed the selection, application and disclosure of the critical accounting policies with the Audit Committee and our Board of Directors.

Revenue recognition. Revenues from merchandise sales are recognized upon customer receipt of merchandise, are net of returns and sales tax and are not recognized until collectability is reasonably assured. For dsw.com, the Company estimates a time lag for shipments to record revenue when the customer receives the goods. Net sales also include revenue from shipping and handling while the related costs are included in cost of sales.

Revenue from gift card is deferred and recognized upon redemption of the gift card. The Company's policy is to recognize income from breakage of gift cards when the likelihood of redemption of the gift card is remote. The Company recognized \$0.2 million as miscellaneous income from gift card breakage during each of the three months ended October 31, 2009 and November 1, 2008, and the Company recognized \$0.6 million and \$0.5 million as miscellaneous income from gift card breakage during the nine months ended October 31, 2009 and November 1, 2008, respectively.

Cost of sales and merchandise inventories. Merchandise inventories are stated at net realizable value, determined using the first-in, first-out basis, or market, using the retail inventory method. The retail method is widely used in the retail industry due to its practicality. Under the retail inventory method, the valuation of inventories at cost and the resulting gross profits are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The cost of the inventory reflected on the condensed consolidated balance sheet is decreased by charges to cost of sales at the time the retail value of the inventory is lowered through the use of markdowns, which are reductions in prices due to customers' perception of value. Hence, earnings are negatively impacted as the merchandise is marked down prior to sale.

Inherent in the calculation of inventories are certain significant management judgments and estimates, including setting the original merchandise retail value, markdowns, and estimates of losses between physical

inventory counts, or shrinkage, which combined with the averaging process within the retail method, can significantly impact the ending inventory valuation at cost and the resulting gross profit.

Investments. DSW determines the appropriate balance sheet classification of its investments at the time of purchase and evaluates the classification at each balance sheet date. If DSW has the intent and ability to hold the investments to maturity, investments are classified as held-to-maturity. Held-to-maturity securities are stated at amortized cost plus accrued interest. All other investments are classified as available-for-sale and stated at current market value.

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DSW's investment in an auction rate security is recorded at fair value under ASC 820 *Fair Value Measurements and Disclosures* using an income approach valuation model that uses level 3 inputs such as the financial condition of the issuers of the underlying securities, expectations regarding the next successful auction, risks in the auction rate securities market and other various assumptions. The other types of investments are valued using a market based approach using level 2 inputs such as prices of similar assets in active markets.

Asset impairment and long-lived assets. The Company periodically evaluates the carrying amount of its long-lived assets, primarily property and equipment, and finite life intangible assets when events and circumstances warrant such a review to ascertain if any assets have been impaired. The carrying amount of a long-lived asset or asset group is considered impaired when the carrying value of the asset or asset group exceeds the expected future cash flows from the asset or asset group. The Company reviews are conducted at the lowest identifiable level, which includes a store. The impairment loss recognized is the excess of the carrying value of the asset or asset group over its fair value, based on discounted cash flow analysis using a discount rate determined by management. Should an impairment loss be realized, it will generally be included in operating expenses. Assets acquired for stores that have been previously impaired are not capitalized when acquired if the store's expected future cash flow remains negative. We believe as of October 31, 2009, that the carrying values and useful lives of long-lived assets continue to be appropriate. We do not believe that there will be material changes in the estimates or assumptions we use to calculate asset impairments. To the extent these future projections or our strategies change, the conclusion regarding impairment may differ from our current estimates.

Self-insurance reserves. We record estimates for certain health and welfare, workers' compensation and casualty insurance costs that are self-insured programs. Self-insurance reserves include actuarial estimates of both claims filed, carried at their expected ultimate settlement value, and claims incurred but not yet reported. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. Health and welfare, workers' compensation and general liability estimates are calculated utilizing claims development estimates based on historical experience and other factors. We have purchased stop loss insurance to limit our exposure to any significant exposure on a per person basis for health and welfare and on a per claim basis for workers' compensation and casualty insurance. Although we do not anticipate the amounts ultimately paid will differ significantly from our estimates, self-insurance reserves could be affected if future claims experience differs significantly from the historical trends and the actuarial assumptions. For example, for workers' compensation and general liability estimates, a 1% increase or decrease to the assumptions for claims costs and loss development factors would increase or decrease our self-insurance by approximately \$0.1 million. The self-insurance reserves, excluding discontinued operations, were \$3.7 million and \$2.5 million at October 31, 2009 and January 31, 2009, respectively.

Pension. The obligations and related assets of the defined benefit retirement plan are included in the Notes to the Consolidated Financial Statements in the Company's 2008 Annual Report. Plan assets, which consist primarily of marketable equity and debt instruments, are valued using market quotations. Plan obligations and the annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Key assumptions in measuring the plan obligations include the discount rate and the estimated future return on plan assets. In determining the discount rate, we utilize the yield on fixed-income investments currently available with maturities corresponding to the anticipated timing of the benefit payments. Asset returns are based on the anticipated average rate of earnings expected on the invested funds of the Plan. At October 31, 2009, the actuarial assumptions have remained unchanged from our 2008 Annual Report. To the extent

actual result

- changes
in
financial
estimates
by
securities
analysts;

publicity or activity involving possible future acquisitions, strategic investments, partnerships or alliances;

Additionally, because the volume of trading in our stock fluctuates significantly at times, any information about us in the media may result in significant volatility in our stock price.

We will not be able to control many of these factors, and we believe that period-to-period comparisons of our financial results will not necessarily be indicative of our future performance.

In addition, the stock market in general, and the market for biotechnology companies in particular, has experienced extreme price and volume fluctuations that may have been unrelated or disproportionate to the operating performance of individual companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance.

If securities or industry analysts publish inaccurate or unfavorable research about our business, our stock price could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline.

A future issuance of preferred stock may adversely affect the rights of the holders of our common stock.

Our certificate of incorporation allows our Board of Directors to issue up to 20,000,000 shares of preferred stock and to fix the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of these shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and could be adversely affected by, the rights of the holders of any preferred stock that we may issue in the future. The issuance of preferred stock, while providing desirable flexibility in connection with our future activities, could also have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock, thereby delaying, deferring or preventing a change of control.

Concentration of ownership of our capital stock could delay or prevent a change of control.

Our directors, executive officers and principal stockholders beneficially own a significant percentage of our common stock. They also have, through the exercise or conversion of certain securities, the right to acquire additional common stock. As a result, these stockholders, if acting together, have the ability to influence the outcome of corporate actions requiring stockholder approval. Additionally, this concentration of ownership may have the effect of delaying or preventing a change of control of SIGA. As of the most recent available information, directors, executive officers and principal stockholders beneficially owned approximately 35% of our outstanding stock.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our headquarters are located in New York, NY and our research and development facilities are located in Corvallis, Oregon. In January 2013, we entered into a sublease with an affiliate to sublet expanded office space in a New York, NY location to serve as our corporate headquarters. The sublease commenced in April 2013 and expires in 2020.

In Corvallis, we lease approximately 9,237 square feet under an amended lease agreement signed in January 2007, as amended in May 2011 and most recently changed through an addendum in April 2015, and which expires in December 2017.

Item 3. Legal Proceedings

After several years of proceedings in litigation initiated by PharmAthene in 2006, the Delaware Court of Chancery on August 8, 2014 issued an opinion and order in which it determined, among other things, that PharmAthene was entitled to a lump sum damages award for its lost profits including interest and fees, based on United States government purchases of the Company's smallpox drug allegedly anticipated as of December 2006. 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), except that the parties agreed by stipulation approved by the Court on October 8, 2014 that the litigation could proceed. On January 15, 2015, the Delaware Court of Chancery entered its Final Order and Judgment (the "Final Order and Judgment") awarding PharmAthene approximately \$195 million, including pre-judgment interest up to January 15, 2015 (the "Outstanding Judgment"). On December 23, 2015 the Delaware Supreme Court affirmed the Outstanding Judgment (the "Delaware Supreme Court Affirmation"). Pursuant to the Final Order and Judgment, SIGA also was liable to PharmAthene for \$30,663.89 per day in post-judgment interest. On a series of dates up to and including a final payment on November 16, 2016, the Company paid PharmAthene an aggregate of \$217 million to fully satisfy the Outstanding Judgment, including post-judgment interest, in accordance with the Plan as described in Note 1 to the financial statements.

From time to time, we may be involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, collections claims, breach of contract claims, labor and employment claims, tax and other matters. Although such claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of such current pending matters, if any, will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of legal costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures

No disclosure is required pursuant to this item.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Since March 20, 2015, the Company's common stock had been traded on the OTC Pink Sheets. The Company's common stock traded under the symbol "SIGAQ" from March 20, 2015 until April 17, 2016, and since April 18, 2016, it has traded under the Symbol "SIGA." Prior to March 20, 2015, the Company's common stock had been traded on the Nasdaq Global Market under the symbol "SIGA" since September 3, 2009 and, prior to such date, had been traded on the Nasdaq Capital Market since September 9, 1997. Prior to that time there was no public market for our common stock.

The following table sets forth, for the periods indicated, the high and low sales prices for the common stock, as reported on the Nasdaq Global Market and OTC:

2016	High	Low
First Quarter	\$0.88	\$0.35
Second Quarter	1.20	0.35
Third Quarter	3.12	0.97
Fourth Quarter	3.35	1.90

2015	High	Low
First Quarter	\$2.68	\$1.35
Second Quarter	2.06	1.28
Third Quarter	1.49	1.01
Fourth Quarter	1.53	0.20

As of February 28, 2017, the closing sale price of our common stock was \$3.29 per share. There were 36 holders of record as of February 28, 2017. We believe that the number of beneficial owners of our common stock is substantially greater than the number of record holders, because a large portion of common stock is held in broker "street names."

We have paid no dividends on our common stock and do not expect to pay cash dividends in the foreseeable future. We currently intend to retain any future earnings to finance the growth and development of our business. Dividend payments are not permitted under the Loan Agreement.

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Performance Graph

The following line graph compares the cumulative total stockholder return through December 31, 2016, assuming reinvestment of dividends, by an investor who invested \$100 on December 31, 2011 in each of (i) our common stock; (ii) the Nasdaq National Market-US; and (iii) the Nasdaq Pharmaceutical Index.

	December 31,					
	2011	2012	2013	2014	2015	2016
SIGA Technologies, Inc.	\$100	\$104	\$130	\$57	\$17	\$114
NASDAQ Composite Index	\$100	\$116	\$160	\$182	\$192	\$207
NASDAQ Biotech Composite Index	\$100	\$132	\$218	\$293	\$326	\$256

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item concerning securities authorized for issuance under equity compensation plans is set forth in Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Item 6. Selected Financial Data

The selected financial data for the years ended December 31, 2016, 2015 and 2014 and the consolidated balance sheet data as of December 31, 2016 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected financial data for the years ended December 31, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014, 2013 and 2012 have been derived from applicable audited consolidated financial statements not included in this annual report. The following table should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and related notes to those statements included elsewhere in this annual report.

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	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except share and per share data)				
Revenues	14,988	8,176	3,140	5,519	8,971
Selling, general and administrative	13,714	10,582	12,647	13,119	10,967
Research and development	19,711	13,131	10,707	13,785	18,213
Patent preparation fees	909	1,009	988	1,421	1,883
Litigation accrual	—	14,407	188,465	197	443
Restructuring charges	11,669	—	—	513	—
Loss from operations	(31,015)	(30,953)	(209,667)	(23,516)	(22,536)
Decrease (increase) in fair value of common stock warrants	(895)	—	313	(74)	805
Interest expense	(2,395)	(267)	(456)	(1,207)	(173)
Backstop fee	(1,764)	—	—	—	—
Other income, net	102	42	1	1	1
Reorganization items, net	(3,717)	(7,811)	(2,127)	—	—
Loss before income taxes	(39,684)	(38,989)	(211,935)	(24,796)	(21,904)
Benefit from (provision for) income taxes	(14)	(462)	(53,528)	7,618	7,844
Net income (loss)	(39,698)	(39,451)	(265,463)	(17,177)	(14,060)
Basic earnings (loss) per share	(0.69)	(0.73)	(4.97)	(0.33)	(0.27)
Diluted earnings (loss) per share	(0.69)	(0.73)	(4.97)	(0.33)	(0.27)
Weighted average shares outstanding: basic	57,188,503	53,777,687	53,419,686	52,368,842	51,639,622
Weighted average shares outstanding: diluted	57,188,503	53,777,687	53,419,686	52,368,842	51,639,622
Cash and cash equivalents and short-term investments	28,702	112,711	99,714	91,310	32,017
Total assets	160,982	185,733	160,729	193,824	105,836
Long-term obligations	248	332	405	2,438	4,779
Stockholders' equity (deficit)	(287,418)	(284,429)	(246,502)	16,975	28,243
Net cash provided by (used in) operating activities	(115,726)	11,109	14,177	58,437	(20,223)

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements and other financial information appearing elsewhere in this Annual Report on Form 10-K. In addition to historical information, the following discussion and other parts of this Annual 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®, also known as ST-246, an orally administered antiviral drug that targets orthopoxvirus infections, including smallpox. While TPOXX® is not yet approved 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.

Chapter 11 Filing

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 as discussed below in the "Plan of Reorganization".

The chapter 11 case preserved the Company's ability to satisfy its commitments under the BARDA Contract (as defined in Note 3 to the financial statements) and preserved 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.

PharmAthene Litigation

On November 16, 2016, the Company satisfied the Outstanding Judgment (defined in Note 13 to the financial statements) owed to PharmAthene, Inc. in connection with litigation. In total, PharmAthene was paid \$217 million in connection with the Outstanding Judgment. See Note 13 to the financial statements for details related to the litigation.

Liquidity

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. With the receipt of the \$8.5 million product delivery payment in February 2017, the Company is not entitled to receive any additional procurement-related payments under the current BARDA Contract (Note 3) until FDA approval of TPOXX® has been achieved and until a cumulative 2 million courses of TPOXX® have been delivered to the Strategic Stockpile. Upon meeting these requirements, the Company is entitled to a \$41 million hold back payment under the BARDA contract. Based on a targeted NDA filing for TPOXX® by the end of 2017, it is currently anticipated that the Company will be eligible to receive the \$41 million hold back payment in the second half of 2018.

In the event that the Company does not receive a substantial portion of the hold back payment by the third quarter of 2018, then, based on current operating costs, the Company will require additional sources of funding to continue operations and prevent an event of default under the Term Loan (Note 7) In this case, the Company would seek to

increase cash liquidity by: raising proceeds through a financing, a new contract for TPOXX® or any other product, a sale of assets, or the modification of the existing BARDA Contract; by significantly reducing its operating expenses; or by modifying the terms of the Loan Agreement. There can be no assurance that the Company will cumulatively deliver 2 million courses of TPOXX® to the Strategic Stockpile, or that TPOXX® will receive FDA approval on a timely basis, if at all. Furthermore, there can be no assurance that the Company would be able to raise proceeds, if needed, through a financing, a new contract for TPOXX® or any other product, a sale of assets or the modification of the existing BARDA Contract, significantly reduce its operating expenses, or that the lenders would agree to modify the Term Loan Agreement, if needed.

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Lead Product - TPOXX®

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 related to the manufacture and delivery of 1.7 million courses of TPOXX® and \$62 million of potential reimbursements connected to development and supportive activities (the "Base Contract").

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:

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 met the modified milestone and received payment.

As of December 31, 2016, the Company has received \$360.4 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®, the \$20.5 million milestone payment (referenced above) 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 \$278.4 million of payments for physical deliveries of TPOXX® to the Strategic Stockpile beginning in 2013.

As of December 31, 2016, the Company was eligible to receive an additional \$49.4 million under the Base Contract for the manufacture, delivery and purchase by BARDA of courses of TPOXX®. Included in this amount are: \$8.5 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 has cumulatively delivered 2.0 million courses of TPOXX® to the Strategic Stockpile and the Company does not have a continuing product replacement obligation to BARDA. In February 2017, the Company received an \$8.5 million payment for a product delivery made in January 2017 of TPOXX® courses.

The BARDA Contract expires in September 2020.

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. A total of 2.0 million courses of TPOXX® is required to be delivered to the Strategic Stockpile in order for the Company to receive the \$41 million hold back payment (see description of hold back payment below).

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 specified label claims, fails release testing or does not meet the 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 potential eventual regulatory approval.

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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 and warrants granted or issued by the Company, revenue recognition, income taxes, realization of deferred tax assets, and contingencies. For a detailed discussion of the application of these and other accounting policies, see Note 2 to our consolidated financial statements.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is reasonably assured, title and risk of loss have been transferred to the customer and there are no further contractual obligations.

Certain arrangements may provide for multiple deliverables, in which there may be a combination of: up-front licenses; research, development, regulatory or other services; and delivery of product. Multiple deliverable arrangements can be divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (i) the delivered item(s) have value to the customer on a standalone basis and (ii) in circumstances in which an arrangement includes a general right of return with respect to delivered items, then performance of the remaining deliverables must be considered probable and substantially in control of the Company. If multiple deliverables cannot be divided into separate units of accounting then the deliverables must be combined into a single unit of accounting.

Total consideration in a multiple deliverable arrangement is allocated to units of accounting on a relative fair value of selling price basis. Consideration allocated to a delivered item or unit of accounting is limited to the amount that is not contingent upon delivery of additional items.

The BARDA Contract is a multiple deliverable arrangement comprising delivery of courses and covered research and development activities. The BARDA Contract contains 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 our obligations related to potential replacement of delivered courses are satisfied. Accordingly we have deferred revenue for all amounts received to date under the BARDA Contract except for revenue recognized for amounts received with respect to BARDA’s obligation to reimburse the cost of covered research and development services.

Subject to the above, payments for development activities are recognized as revenue when earned, over the period of effort. Funding for the acquisition of capital assets under cost-plus-fee contracts and grants is evaluated for appropriate recognition as a reduction to the cost of the acquired asset, a financing arrangement, or revenue, based on the specific terms of the related grant or contract.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management’s best estimate of current and future taxes to be paid. We are subject to US federal income tax and state income tax in numerous jurisdictions. Significant judgments and estimates are required in the determination of our income tax expense.

Deferred income taxes arise from temporary differences between the tax basis of assets and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. Each reporting period, the Company assesses the realizability of its deferred tax assets to determine if the deductible temporary differences will be utilized on a more-likely-than-not basis. In making this determination, the Company assesses all available positive and negative evidence to determine if its existing deferred tax assets are realizable on a more-likely-than-not basis. Significant weight is given to positive and negative evidence that is objectively verifiable. The Company considered the reversal of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operating results. The ultimate realization of a deferred tax asset is ultimately dependent on the Company's generation of sufficient taxable income within the available net operating loss carryback and/or carryforward periods to utilize the deductible temporary differences. Based on the weight of available evidence including three-year cumulative pre-tax losses, the Company continued to conclude that its deferred tax assets are not realizable on a more-likely-than-not basis and that a full valuation allowance is required.

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The amount of deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the net operating loss carryforward period change and/or if significant objective negative evidence is no longer present. Such changes could lead to a change in judgment related to the realization of the net deferred tax asset. Future changes in the estimated amount of deferred taxes expected to be realized will be reflected in our financial statements in the period the estimate is changed with a corresponding adjustment to operating results.

Income tax benefits are recognized for a tax position when, in management's judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, the tax benefit is measured as the largest amount that is judged to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. As of December 31, 2016 and 2015, the Company has no material uncertain tax positions. In the event that the Company concludes that it is subject to interest and/or penalties arising from uncertain tax positions, the Company will present interest and penalties as a component of income taxes.

Warrant Liability

The Company accounts for warrants in accordance with the authoritative guidance which requires that free-standing derivative financial instruments with certain anti-dilution features be classified as assets or liabilities at the time of the transaction, and recorded at their fair value. Fair value is estimated using a model-derived valuations. Any changes in the fair value of the derivative instruments are reported in earnings or loss as long as the derivative contracts are classified as assets or liabilities.

Recent Accounting Pronouncements

On November 17, 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. 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. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact that ASU 2016-18 will have on its consolidated financial statements.

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 is currently evaluating the impact that ASU 2016-15 will have 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 assessed the impact of ASU 2016-09 and believes adoption of the ASU will not have a material impact on its consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02 Leases, which relates to the accounting of leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

In August 2014, the FASB issued Accounting Standard Update (“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

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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 adopted ASU 2014-15 and for adoption impact see Note 1 to the financial statements under "liquidity".

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 periods beginning after December 15, 2016. The Company is assessing the potential impact of the variable consideration related to milestones and other payments received as well as the impact of the potential replacement obligation for courses already delivered to BARDA. The Company will continue to assess the impact of ASU 2014-09.

Results of Operations for the Years ended December 31, 2016, 2015, and 2014

Revenues from research and development contracts and grants for the years ended December 31, 2016 and 2015, were \$15.0 million and \$8.2 million, respectively. The increase in revenue of \$6.8 million, or 83%, reflects a \$7.6 million increase in revenues from our federal contracts supporting the development of TPOXX®, partially offset by a \$744,000 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 years ended December 31, 2015 and 2014, were \$8.2 million and \$3.1 million, respectively. The decrease in revenue of \$5.1 million, or 160%, reflects a \$4.3 million increase in revenues from our federal contracts supporting the development of TPOXX® and a \$771,000 million increase in grant revenues related to dengue fever. The increase in revenues related to the TPOXX® program is primarily due to the commencement of an expanded human safety study in 2015, as well as the performance of multiple animal studies.

Selling, general and administrative expenses ("SG&A") for the years ended December 31, 2016 and 2015 were \$13.7 million and \$10.6 million, respectively, reflecting an increase of \$3.1 million, or 29.6%. The increase is primarily attributable to: a \$2.2 million increase in annual bonus expense related to operating performance and performance in connection with strategic initiatives related to satisfaction of the PharmAthene liability; an increase of \$1.2 million in professional service fees in connection with strategic initiatives related to satisfaction of the PharmAthene liability; and \$684,000 of primarily professional service fees incurred post Effective Date of the Plan and in connection with the chapter 11 case and implementation of the reorganization plan. These factors were partially offset by a decrease in professional service fees in connection with PharmAthene litigation and a decrease of approximately \$600,000 in stock-based compensation expense.

SG&A for the years ended December 31, 2015 and 2014 were \$10.6 million and \$12.6 million, respectively, reflecting a decrease of approximately \$1.9 million, or 15.5%. The decrease is primarily related to a decrease of \$888,000 in professional service fees in connection with business development and strategic initiatives; a \$536,000

decrease in employee compensation expense primarily due to a decrease in stock-based compensation expense; a decrease of \$254,000 in investor relation and other consulting services; and a \$96,000 decrease in travel-related expense.

Research and development (“R&D”) expenses were \$19.7 million for the year ended December 31, 2016, an increase of approximately \$6.6 million, or 50% from the \$13.1 million incurred during the year ended December 31, 2015. The increase is primarily attributable to: an increase of \$6.8 million in direct vendor-related expenses supporting the development of TPOXX® (number and scale of active studies increased); and a \$1.0 million increase in bonus expense related to operating performance and performance in connection with strategic initiatives related to satisfaction of the PharmAthene liability. These factors partially offset by a \$577,000 decrease in direct vendor-related expenses supporting the development and research of dengue fever; no leasehold write-offs in 2016 whereas there was a \$244,000 write-off in 2015, and a decrease of \$210,000 in stock-based compensation expense.

R&D expenses were \$13.1 million for the year ended December 31, 2015, an increase of approximately \$2.4 million, or 22.6% from the \$10.7 million incurred during the year ended December 31, 2014. An increase of \$3.5 million in direct vendor-related expenses supporting the development of TPOXX® and the Company's pre-clinical programs, in combination with a \$

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244,000 write-off of leasehold improvements, was partially offset by a \$717,000 decrease in inventory write-downs; inventory adjustments were \$60,000 for 2015 whereas there was a net \$777,000 inventory write-down for 2014, and a \$491,000 decrease in employee compensation mostly due to a decrease in stock-based compensation expense and lower bonus expense.

Patent expenses for the years ended December 31, 2016, 2015 and 2014 were \$909,000, \$1.0 million and \$1.0 million, respectively. These expenses reflect our ongoing efforts to protect our lead drug candidates in varied geographic territories.

For the year ended December 31, 2016, the Company incurred approximately \$11.7 million of interest expense on the PharmAthene liability.

For the year ended December 31, 2015, the Company recorded approximately \$14.4 million of litigation loss accrual in connection with the PharmAthene litigation. The accrual primarily related to post-judgment interest on the Delaware Court of Chancery Final Order and Judgment. See Note 13 to the financial statements for additional information.

Changes in the fair value of liability classified warrants to acquire common stock were recorded within the income statement. For the year ended December 31, 2016, we recorded a loss of approximately \$895,000, reflecting an increase in fair value of liability classified warrants from \$5.8 million to \$6.7 million.

Interest expense for the year ended December 31, 2016 of \$2.4 million includes: \$1.3 million of interest on the Term Loan; accretion of approximately \$567,000 related to the loan discount, debt issuance costs and fees to be paid when the Term Loan is repaid; and approximately \$541,000 of transaction-related costs allocated to the September 2016 warrant issuance. Interest expense for the year ended December 31, 2015 of \$267,000 primarily reflected fees incurred in connection with the termination of the General Electric Corporation term loan in January 2015.

For the year-ended December 31, 2016, the Company incurred a non-cash backstop fee of approximately \$1.8 million pursuant to the backstop agreement with M&F and the other backstop parties.

Reorganization expenses in connection with the chapter 11 filing for the years ended December 31, 2016 and 2015, were approximately \$3.7 million and \$7.8 million, respectively. Reorganization expenses for the year-ended December 31, 2016 represents expenses incurred up to the Effective Date of the Plan.

For the year ended December 31, 2016, we incurred a tax provision of \$13,884 on pre-tax losses of \$39.7 million. Our effective tax rate for the year ended December 31, 2016 was 0.03%.

For the year ended 2015, we incurred a tax provision of \$462,000 on pre-tax net losses of \$39.5 million. Our effective tax rate for the year ended December 31, 2015 was (1.2)%. Our effective tax rate was impacted by recurring items such as current operating losses with no tax benefit, federal alternative minimum tax, state taxes, and the change in the valuation allowance for deferred tax liabilities associated with indefinite lived intangible assets. Such deferred tax liabilities generally cannot be used as a source of taxable income to realize deferred tax assets with a definitive loss carryforward period.

As of December 31, 2016 and 2015, we have a net deferred tax liability of \$286,066 and \$265,643, respectively as there is a full valuation allowance recorded against the net deferred tax assets. We do not amortize goodwill for book purposes but have amortized goodwill with tax basis for tax purposes. The deferred tax liability recorded at December 31, 2016 and 2015 relates to the tax effect of differences between the book and tax basis of goodwill that is not expected to reverse until some indefinite future period.

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Liquidity and Capital Resources

As of December 31, 2016, the Company had \$28.7 million in cash and cash equivalents compared with \$112.7 million at December 31, 2015. As discussed herein, the Company used cash from the Term Loan and Rights Offering, together with cash on hand and cash received from the BARDA Contract, to pay PharmAthene \$217 million in satisfaction of the PharmAthene Judgment. The PharmAthene claim was satisfied in November 2016. In November 2016, as part of the final satisfaction of the PharmAthene liability, the Term Loan was funded and the Rights Offering was completed. The Term Loan provided \$50 million (net of fees and expenses) that was paid to PharmAthene as part of the final satisfaction of the PharmAthene liability, and placed an additional \$30 million in a reserve account to be utilized primarily to pay interest on the Term Loan (such amount being recorded as restricted cash). The Rights Offering provided net proceeds of approximately \$35 million.

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. With the receipt of the \$8.5 million product delivery payment in February 2017, the Company is not entitled to receive any additional procurement-related payments under the current BARDA Contract (Note 3) until FDA approval of TPOXX® has been achieved and until a cumulative 2 million courses of TPOXX® have been delivered to the Strategic Stockpile. Upon meeting these requirements, the Company is entitled to a \$41 million hold back payment under the BARDA contract. Based on a targeted NDA filing for TPOXX® by the end of 2017, it is currently anticipated that the Company will be eligible to receive the \$41 million hold back payment in the second half of 2018.

In the event that the Company does not receive a substantial portion of the hold back payment by the third quarter of 2018, then, based on current operating costs, the Company will require additional sources of funding to continue operations and prevent an event of default under the Term Loan (Note 7). In this case, the Company would seek to increase cash liquidity by: raising proceeds through a financing, a new contract for TPOXX® or any other product, a sale of assets, or the modification of the existing BARDA Contract; by significantly reducing its operating expenses; or by modifying the terms of the Loan Agreement. There can be no assurance that the Company will cumulatively deliver 2 million courses of TPOXX® to the Strategic Stockpile, or that TPOXX® will receive FDA approval on a timely basis, if at all. Furthermore, there can be no assurance that the Company would be able to raise proceeds, if needed, through a financing, a new contract for TPOXX® or any other product, a sale of assets or the modification of the existing BARDA Contract, significantly reduce its operating expenses, or that the lenders would agree to modify the Term Loan Agreement, if needed.

Change in Provisional Dosage of TPOXX®

On December 24, 2014, the Company announced that based on discussions with representatives of the FDA and BARDA, product deliveries of TPOXX® subsequent to December 31, 2014 were expected to be at a provisional dosage of 600 mg administered twice per day (1,200 mg per day). This was 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 per day. The change in the provisional dosage was 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 current provisional dosage. The Company and BARDA have agreed to an amendment of (the “BARDA Amendment”) of the BARDA Contract to reflect the foregoing, which modification was approved by the Bankruptcy Court in April 2015. The Company is incurring significant incremental costs with the production of additional dosage of TPOXX®. The current provisional dose received FDA dose concurrence in February 2016.

Operating Activities

Net cash used by operations for the year ended December 31, 2016 was \$115.7 million, whereas net cash provided by operations for the year ended December 31, 2015 was \$11.1 million. Cash usage in 2016 is primarily attributable to \$170 million of payments made to PharmAthene by the Company, in combination with a \$46.9 million payment made directly to PharmAthene by the Lender under the Term Loan, to fully satisfy the PharmAthene claim (the \$46.9 million payment by the Lender is not part of operating activities within the cash flow statement). Cash usage is also due to: operating expenses; costs attendant to the administration of the chapter 11 case; pre-petition claim payments (other than the PharmAthene claim); \$31.4 million of payments to contract manufacturing organizations ("CMOs") for the manufacture and related support of TPOXX®. These amounts are partially offset by \$111.2 million of cash received from BARDA for product deliveries of TPOXX® and achieving a milestone under the BARDA contract.

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In 2015, the Company received approximately \$50.9 million from BARDA for the product delivery of TPOXX®. Cash usage was related to recurring operating costs and was elevated in comparison to the prior year primarily due to costs attendant to the administration of the Company's chapter 11 case and expenses related to the PharmAthene litigation. Additionally, \$14.0 million of payments were made to CMOs for the manufacturing and related support of TPOXX®.

On December 31, 2016 and 2015, our accounts receivable balance was approximately \$3.2 million and \$3.7 million, respectively. Our account receivable balances primarily reflect work performed during December 31, 2016 and 2015 in connection with TPOXX®.

Our accounts payable, accrued expenses and other current liabilities balance were \$7.1 million and \$7.3 million on December 31, 2016 and 2015, respectively.

Investing Activities

Net cash provided by investing activities for the year ended December 31, 2016 and 2015 was \$1.2 million and \$3.9 million, respectively. For the year ended December 31, 2016, the Company received \$1.2 million in connection with the return of collateral supporting a surety bond that had been posted in 2012 in connection with the PharmAthene litigation. For the year ended December 31, 2015, collateral of \$4 million was released and restricted cash was reclassified to cash and cash equivalent when the Company paid the GE term loan in full. As background, the Company set aside in 2014, in a separate account, \$4 million as collateral for obligations under the GE term loan and classified this amount as restricted cash. Capital expenditures for the years ended December 31, 2016 and 2015 were \$23,927 and \$108,953, respectively, reflecting purchases of fixed assets in the ordinary course of business.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2016 was \$30.4 million, whereas \$2 million of cash was used by financing activities for the year ended December 31, 2015. On November 16, 2016, the Term Loan was funded and the Rights offering was completed. The Rights Offering provided net proceeds of approximately \$34.6 million through the sale of 23.5 million shares of common stock. In connection with the Term Loan, the Company paid \$3.8 million of costs. Separately, during 2016, the Company repurchased \$428,009 of common stock to meet minimum statutory tax withholding requirements for restricted shares issued to employees. In 2015, the Company repaid the GE term loan in full.

The Term Loan provided \$46.9 million (\$50 million, less fees and expenses of \$3.1 million) that was paid directly by the Lender to PharmAthene as part of the full satisfaction of the PharmAthene claim. The Term Loan placed an additional \$30 million in a reserve account to be utilized primarily to pay interest on the Term Loan (such amount being recorded as restricted cash).

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Contractual Obligations, Commercial Commitments and Purchase Obligations

Future contractual obligations and commercial commitments as of December 31, 2016 are expected to be as follows:

	Total	Less than 1 year	1 to 3 years	3 to 5 years
Operating lease obligations (1)	3,261,833	1,242,797	1,506,248	512,788
Term loan obligations at maturity	84,000,000			84,000,000
Int. pay. obligations on the Term Loan (3)	39,333,334	10,138,889	20,277,778	8,916,667
Purchase obligations (2)	10,437,590	10,376,480	34,110	27,000
Total contractual obligations	\$ 137,032,757	\$ 21,758,166	\$ 21,818,136	\$ 93,456,455

(1) Includes facilities and office space under two operating leases expiring in 2017 and 2020, respectively. These obligations assume non-termination of agreements and represent expected payments, which are subject to change.

(2) Includes purchase orders for manufacturing and R&D activities.

(3) Includes amounts to be paid with restricted cash. Assumes interest rate of 12.5% throughout the duration of the Term Loan.

Off-Balance Sheet Arrangements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our investment portfolio includes cash and cash equivalents. 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. As such, we believe that, the securities we hold are subject to market risk, 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. Additionally, we are also subject to the risk of rising LIBOR rates; if the minimum rate among one-month, two-month, three-month and six-month LIBOR rates (“minimum LIBOR rate”) rises above 1%, then the interest rate charged on the Term Loan will increase above current levels and could increase materially depending on the magnitude of any increase in LIBOR rates. For every increase of 0.50% in the minimum LIBOR rate (e.g. an increase from a LIBOR rate of 1.00% to 1.50%), annual interest payments on the Term Loan would increase \$405,556. Furthermore, we are subject to the impact of stock price fluctuations of our common stock in that we have a liability classified warrant in which 2.7 million shares of SIGA common stock can be purchased at a strike price of \$1.50. For every \$1 increase in the stock price of SIGA, the intrinsic value of the liability classified warrant will increase by \$2.7 million.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of SIGA Technologies, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive loss, of changes in stockholders' deficit and of cash flows present fairly, in all material respects, the financial position of SIGA Technologies, Inc. and its subsidiary at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company may have significant liquidity needs beginning in the third quarter of 2018.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
March 7, 2017

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SIGA TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
As of

	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$28,701,824	\$112,711,028
Restricted cash and cash equivalents-short term	10,138,890	—
Accounts receivable	3,154,370	3,676,730
Inventory	26,209,964	12,447,088
Prepaid expenses and other current assets	954,426	623,983
Total current assets	69,159,474	129,458,829
Property, plant and equipment, net		
Restricted cash and cash equivalents-long term	299,477	449,825
Deferred costs	17,333,332	—
Goodwill	72,649,277	52,936,428
Other assets	898,334	898,334
Total assets	642,083	1,989,520
	\$160,981,977	\$185,732,936
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$2,517,072	\$3,944,476
Accrued expenses and other current liabilities	4,584,752	3,388,608
Warrant liability	6,727,409	—
Total current liabilities	13,829,233	7,333,084
Deferred revenue	367,483,905	255,258,371
Deferred income tax liability, net	286,066	265,643
Other liabilities	247,989	332,218
Liabilities subject to compromise	—	206,972,170
Loan payable	66,553,053	—
Total liabilities	448,400,246	470,161,486
Commitments and Contingencies		
Stockholders' deficit		
Common stock (\$.0001 par value, 600,000,000 shares authorized, 78,692,612 and 54,114,296 issued and outstanding at December 31, 2016, and December 31, 2015, respectively)	7,869	5,411
Additional paid-in capital	213,714,154	177,008,371
Accumulated deficit	(501,140,292)	(461,442,332)
Total stockholders' deficit	(287,418,269)	(284,428,550)
Total liabilities and stockholders' deficit	\$160,981,977	\$185,732,936

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

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SIGA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the Years Ended December 31

	2016	2015	2014
Revenues			
Research and development	\$14,987,628	\$8,175,878	\$3,139,835
Operating expenses			
Selling, general and administrative	13,713,635	10,582,068	12,646,653
Research and development	19,710,673	13,130,529	10,707,354
Patent preparation fees	909,376	1,009,053	987,777
Litigation accrual expense	—	14,407,494	188,465,065
Interest on PharmAthene liability	11,668,900	—	—
Total operating expenses	46,002,584	39,129,144	212,806,849
Operating loss	(31,014,956)	(30,953,266)	(209,667,014)
Decrease (increase) in fair value warrant liability	(894,785)	—	313,425
Interest expense	(2,395,517)	(266,726)	(455,810)
Backstop fee - see Note 8	(1,764,240)	—	—
Other income, net	102,324	42,202	1,065
Reorganization items, net	(3,716,902)	(7,811,551)	(2,126,536)
Loss before income taxes	(39,684,076)	(38,989,341)	(211,934,870)
Provision for income taxes	(13,884)	(461,983)	(53,528,268)
Net and comprehensive loss	\$(39,697,960)	\$(39,451,324)	\$(265,463,138)
Loss per share: basic and diluted	\$(0.69)	\$(0.73)	\$(4.97)
Weighted average shares outstanding: basic and diluted	57,188,503	53,777,687	53,419,686

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

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SIGA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

For the Years Ended December 31, 2016, 2015 and 2014

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid - In	Deficit	Other	Stockholders'
			Capital		Comprehensive	Deficit
					Income	
					(Loss)	
Balances, December 31, 2013	53,108,844	5,310	173,498,028	(156,527,870)	—	16,975,468
Net loss				(265,463,138)		(265,463,138)
Issuance of common stock upon exercise of stock options and warrants	521,327	54	101,981			102,035
Stock-based compensation			2,299,098			2,299,098
Payment of common stock tendered for employee stock-based compensation tax obligations	(125,875)	(13)	(415,927)			(415,940)
Balances, December 31, 2014	53,504,296	\$5,351	\$175,483,180	\$(421,991,008)	\$	—\$(246,502,477)
Net loss				(39,451,324)		(39,451,324)
Issuance of common stock upon exercise of stock options and release of RSU's	610,000	60	12,140			12,200
Stock-based compensation			1,528,582			1,528,582
Change in excess tax benefit from stock-based compensation			(15,531)			(15,531)
Balances, December 31, 2015	54,114,296	\$5,411	\$177,008,371	\$(461,442,332)	\$	—\$(284,428,550)
Net loss				(39,697,960)		(39,697,960)
Issuance of common stock upon release of RSU's	483,335	48	(48)			—
Stock based compensation			775,541			775,541
Payment of common stock tendered for employee stock-based compensation tax obligations	(136,744)	(13)	(427,996)			(428,009)
Issuance of common stock associated with rights offering	23,523,195	2,352	34,594,117			34,596,469
Issuance of common stock associated with backstop agreement	708,530	71	1,764,169			1,764,240
Balances, December 31, 2016	78,692,612	\$7,869	\$213,714,154	\$(501,140,292)	\$	—\$(287,418,269)

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

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SIGA TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31

	2016	2015	2014
Cash flows from operating activities:			
Net loss	\$(39,697,960)	\$(39,451,324)	\$(265,463,138)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and other amortization	174,275	247,357	351,561
Increase in fair value of warrant liability	894,785	—	(313,425)
Stock-based compensation	775,541	1,574,038	2,435,462
Gain on sale of assets	—	—	(345,658)
Non-cash backstop fee	1,764,240	—	—
Loss on disposal of assets	—	243,707	—
Non-cash interest expense	566,779	10,052	31,175
Interest expense on term loan - paid with restricted cash	1,222,222	—	—
Changes in assets and liabilities:			
Accounts receivable	522,360	(3,185,098)	490,391
Inventory	(13,762,876)	6,597,389	1,470,872
Deferred costs	(19,712,849)	(20,075,554)	(10,277,672)
Prepaid expenses and other current assets	(330,443)	229,266	(236,134)
Other assets	80,928	—	43,186
Deferred income taxes, net	20,423	21,103	53,569,071
Accounts payable, accrued expenses and other current liabilities	(177,342)	1,862,779	(4,436,468)
Liabilities subject to compromise	(160,072,170)	(192,067,797)	399,039,967
Deferred revenue	112,225,534	255,176,572	(162,140,390)
Other liabilities	(84,228)	(73,107)	(42,280)
Net cash (used in) provided by operating activities	(115,590,781)	11,109,383	14,176,520
Cash flows from investing activities:			
Capital expenditures	(23,927)	(108,953)	(28,046)
Proceeds from sale of assets	—	—	569,607
Return of collateral for surety bond	1,212,591	—	—
Restricted cash	—	4,000,000	(4,000,000)
Net cash provided by (used in) investing activities	1,188,664	3,891,047	(3,458,439)
Cash flows from financing activities:			
Net proceeds from exercise of warrants and options	—	12,200	102,035
Net proceeds from equity rights offering - net of offering costs	34,596,468	—	—
Payment of employee tax obligations for common stock tendered	(428,009)	—	(415,940)
Debt issuance costs	(3,775,546)	—	—
Repayment of long-term debt	—	(2,000,000)	(2,000,001)
Excess tax benefit from stock-based compensation	—	(15,531)	—
Net cash provided by (used in) financing activities	30,392,913	(2,003,331)	(2,313,906)
Net (decrease) increase in cash and cash equivalents	(84,009,204)	12,997,099	8,404,175
Cash and cash equivalents at beginning of period	112,711,028	99,713,929	91,309,754
Cash and cash equivalents at end of period	\$28,701,824	\$112,711,028	\$99,713,929
Supplemental disclosures of cash flows information:			
	\$46,900,000	\$—	\$—

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Portion of Term Loan paid directly to PharmAthene by the Lender in satisfaction of the PharmAthene claim; such liability is part of the Liabilities Subject to Compromise line item

Cash interest paid on PharmAthene liability	\$ 11,668,900	\$—	\$—
Cash interest paid on Term Loan from restricted cash	\$ 1,222,222	\$—	\$—
Cash income taxes paid (refund)	\$ 500,975	\$(420,029) \$ 728,442
Reclass of common stock warrant liability to additional paid-in capital upon warrant exercise	\$—	\$—	\$ 751,370
Fair value of warrant, at issuance date, in connection with loan agreement and recorded as warrant liability	\$ 5,832,624	\$—	\$—

The accompanying notes are an integral part of these financial statements

SIGA TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Description of Business

SIGA Technologies, Inc. ("SIGA" or the "Company") is a company specializing in the development and commercialization of solutions for serious unmet medical needs and biothreats. The Company's lead product is TPOXX®, an orally administered antiviral drug that targets orthopoxvirus infections, including smallpox. While TPOXX® is not yet approved 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.

Chapter 11 Filing

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 as discussed below in the "Plan of Reorganization".

The chapter 11 case preserved the Company's ability to satisfy its commitments under the BARDA Contract (as defined in Note 3 to the financial statements) and preserved 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"). The Plan addressed, among other things, how the Company would 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 provided for, among other things:

The immediate payment in cash in full of prepetition unsecured claims (other than PharmAthene's claim). The Company has paid approximately \$800,000 to satisfy the claims.

The Company could have treated PharmAthene's claim under the Plan by one of three options: (i) payment in full in cash of the Company's obligation under the Delaware Court of Chancery Final Order and Judgment by a certain date (ii) delivery to PharmAthene of 100% of newly-issued stock of the Company, with all existing shares of the Company's common stock would have been cancelled with no distribution to existing stockholders on account thereof; or (iii) such other treatment as would have mutually agreed upon by the Company and PharmAthene.

On the Effective Date of the Plan, the Company paid \$5 million to PharmAthene, which amount was applied against PharmAthene's claim. On July 8, 2016, pursuant to the Plan, the Company delivered to PharmAthene a notification (the "Notification") of its intention to satisfy PharmAthene's claim by payment in full in cash, and at that time paid PharmAthene \$20 million, which was applied against its claim. 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 August 18, 2016, the Bankruptcy Court entered an order affirming a joint

motion 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 against its claim. Between August and early October, the Company paid PharmAthene \$100 million in order to satisfy the extension requirement. On November 16, 2016, the Company paid its remaining obligations to PharmAthene under the Plan.

In total, a cumulative amount of \$217 million (including interest payments at periodic intervals) was paid by the Company to fully satisfy the PharmAthene claim. The chapter 11 case was closed by the Bankruptcy Court on December 22, 2016.

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PharmAthene Litigation

On November 16, 2016, the Company satisfied the Outstanding Judgment (defined in Note 13 to the financial statements) owed to PharmAthene, Inc. in connection with litigation. In total, PharmAthene was paid \$217 million in connection with the Outstanding Judgment. See Note 13 to the financial statements for details related to the litigation.

Liquidity

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. With the receipt of the \$8.5 million product delivery payment in February 2017, the Company is not entitled to receive any additional procurement-related payments under the current BARDA Contract (Note 3) until FDA approval of TPOXX® has been achieved and until a cumulative 2 million courses of TPOXX® have been delivered to the Strategic Stockpile. Upon meeting these requirements, the Company is entitled to a \$41 million hold back payment under the BARDA contract. Based on a targeted NDA filing for TPOXX® by the end of 2017, it is currently anticipated that the Company will be eligible to receive the \$41 million hold back payment in the second half of 2018.

In the event that the Company does not receive a substantial portion of the hold back payment by the third quarter of 2018, then, based on current operating costs, the Company will require additional sources of funding to continue operations and prevent an event of default under the Term Loan (Note 7). In this case, the Company would seek to increase cash liquidity by: raising proceeds through a financing, a new contract for TPOXX® or any other product, a sale of assets, or the modification of the existing BARDA Contract; by significantly reducing its operating expenses; or by modifying the terms of the Loan Agreement. There can be no assurance that the Company will cumulatively deliver 2 million courses of TPOXX® to the Strategic Stockpile, or that TPOXX® will receive FDA approval on a timely basis, if at all. Furthermore, there can be no assurance that the Company would be able to raise proceeds, if needed, through a financing, a new contract for TPOXX® or any other product, a sale of assets or the modification of the existing BARDA Contract, significantly reduce its operating expenses, or that the lenders would agree to modify the Term Loan Agreement, if needed.

Loan Agreement

On September 2, 2016, the Company 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 received \$80 million on November 16, 2016 having satisfied certain pre-conditions. Proceeds related to the Loan Agreement (\$80 million) had been placed in an escrow account on September 30, 2016 (the “Escrow Funding Date”). Prior to the Escrow Release Date (November 16, 2016), the Company did not have access to, or any ownership interest in, the escrow account. Until the Escrow Release Date occurred, the Company did not have an obligation to make any payments under the Loan Agreement, no security was granted under the Loan Agreement and no affirmative or negative covenants or events of default were effective under the Loan Agreement. Amounts were held in the escrow account until the satisfaction of certain conditions including the closing of the Rights Offering on November 16, 2016. Amounts held in the escrow account between September 30, 2016 and November 15, 2016 bore interest at a per annum rate equal to the Adjusted LIBOR Rate (as defined in the Loan Agreement) plus 11.50%. Interest on amounts held in the escrow account became payable only when the Escrow Release Date occurred. As part of satisfaction of the PharmAthene claim, funds were released from the escrow account (the date on which such transfer occurred, 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 was placed in a reserve account (the “Reserve Account”) only be utilized to pay interest on the Term Loan as it becomes due; (ii) an additional \$5,000,000 was also placed 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 aforementioned \$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) was paid to PharmAthene as part of the final satisfaction of the PharmAthene claim. Interest on the Term Loan is at a per annum rate equal to the Adjusted LIBOR rate plus 11.50%, subject to adjustments as set forth in the Loan Agreement. See Note 7 to the financial statements for additional information.

Warrant

On September 2, 2016, in connection with the entry into the Loan Agreement, the Company issued a warrant (the “Warrant”) to the Lender to purchase a number of shares of the Company’s common stock equal to \$4 million divided by the lower of (i) \$2.29 per share and (ii) the subscription price paid in connection with the Rights Offering. The Warrant provided for weighted average anti-dilution protection and is exercisable in whole or in part for ten (10) years from the date of issuance. The subscription price paid in connection with the Rights Offering was \$1.50; accordingly, the exercise price of the Warrant has been set at \$1.50 per

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shares and 2.7 million shares can be purchased under the Warrant. The Warrant had a fair value of \$6.7 million at December 31, 2016 and is classified as a liability.

Rights Offering

On November 16, 2016, the Company completed a rights offering (the "Rights Offering"), pursuant to which it raised approximately \$35.3 million in gross proceeds through the sale of 23,523,195 shares of its common stock. The Rights Offering was made pursuant to a registration statement on Form S-1 filed with the Securities and Exchange Commission (the "SEC") and declared effective by the SEC on October 21, 2016. 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 entitled 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 expired at 5:00 pm, New York City time, on November 8, 2016. Through basic subscriptions and oversubscriptions, the Rights Offering was fully subscribed. The subscription price was set at \$1.50. The Company used the net proceeds of the Rights Offering, together with proceeds from the Loan Agreement (discussed above) and cash on hand, to fully satisfy PharmAthene's claim under the Plan.

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 M&F, and other backstop parties (the "Backstop Parties"). Under the term of the Backstop Agreement, the Backstop Parties agreed to purchase, pursuant to a separate private placement, a number of shares of common stock equal to the numbers of shares that would have not been subscribed for in the Rights Offering. Under the Backstop Agreement, the subscription price was set to be equal to the subscription price applicable to all shareholders under the Rights Offering. The Rights Offering was fully subscribed, the Backstop Parties were not required to draw on such commitment. The Company issued 708,530 shares to Backstop Parties in payment of the five percent backstop fee (\$1,764,240) payable to the Backstop Parties in connection with the Backstop Agreement entered into between the Company and the Backstop Parties. When shares were issued to the Backstop Parties in payment of the backstop fee, the stock price of SIGA common stock was \$2.49 per share (the closing price of the Company's common stock on November 16, 2016). The fair value of the shares issued in satisfaction of the backstop fee has been expensed on the income statement in 2016. There are no remaining payment obligations to the Backstop Parties under the Backstop Agreement.

2. Summary of Significant Accounting Policies

Use of Estimates

The consolidated financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States of America. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. The most significant estimates include the variables used in the calculation of fair value of stock-based awards including options and warrants granted or issued by the Company; reported amounts of revenue; calculation of contingencies; and the realization of deferred tax assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from these estimates.

Basis of presentation

The consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and reflect the consolidated financial position, results of operations and cash flows for all periods presented.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

A portion of the Company's cash received under the Loan Agreement is restricted. In accordance with the Loan Agreement, cash placed in the reserve account is restricted. Except for \$5 million, cash in the reserve account can only be utilized to pay interest on the Term Loan. The aforementioned \$5 million in the reserve account can be withdrawn after June 30, 2018 upon the satisfaction of certain conditions. As of December 31, 2016, the restricted cash balance was \$27.5 million of which \$10.1 million is designated as a current asset and the remainder is designated as non-current. See Note 7 to the financial statements for additional information.

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Concentration of Credit Risk

The Company has cash in bank accounts that exceed the Federal Deposit Insurance Corporation insured limits. The Company has not experienced any losses on its cash accounts and no allowance has been provided for potential credit losses because management believes that any such losses would be minimal, if any.

Accounts Receivable

Accounts receivable are recorded net of provisions for doubtful accounts. At December 31, 2016 and 2015, 100% of accounts receivables represented receivables from Biomedical Advanced Research and Development Authority (“BARDA”) and National Institutes of Health (“NIH”). An allowance for doubtful accounts is based on specific analysis of the receivables. At December 31, 2016 and 2015, the Company had no allowance for doubtful accounts.

Inventory

Inventories are stated at the lower of cost or estimated realizable value. The Company capitalizes inventory costs associated with the Company’s products when, based on management’s judgment, future commercialization is considered probable and the future economic benefit is expected to be realized; otherwise, such costs are expensed as research and development. Inventory is evaluated for impairment periodically to identify inventory that may expire prior to expected sale or has a cost basis in excess of its estimated realizable value. If certain batches or units of product no longer meet quality specifications or become obsolete due to expiration, the Company records a charge to write down such unmarketable inventory to its estimated realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided on a straight-line method over the estimated useful lives of the various asset classes. The estimated useful lives are as follows: 5 years for laboratory equipment; 3 years for computer equipment; and 7 years for furniture and fixtures. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the lease term. Maintenance, repairs and minor replacements are charged to expense as incurred.

Warrant Liability

The Company accounts for warrants in accordance with the authoritative guidance which requires that free-standing derivative financial instruments with certain anti-dilution features be classified as assets or liabilities at the time of the transaction, and recorded at their fair value. Fair value is estimated using model-derived valuations. Any changes in the fair value of the derivative instruments are reported in earnings or loss as long as the derivative contracts are classified as assets or liabilities.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectability is reasonably assured, title and risk of loss have been transferred to the customer and there are no further contractual obligations.

Certain arrangements may provide for multiple deliverables, in which there may be a combination of: up-front licenses; research, development, regulatory or other services; and delivery of product. Multiple deliverable arrangements can be divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (i) the delivered item(s) have value to the customer on a standalone basis and (ii) in circumstances in which an arrangement includes a general right of return with respect to delivered items, then performance of the remaining deliverables must be considered probable and substantially in control of the Company. If multiple deliverables cannot be divided into separate units of accounting then the deliverables must be combined into a single unit of accounting.

Total consideration in a multiple deliverable arrangement is allocated to units of accounting on a relative fair value of selling price basis. Consideration allocated to a delivered item or unit of accounting is limited to the amount that is not contingent upon delivery of additional items.

Direct costs incurred by the Company and associated with the deferral of revenue for a unit of accounting will also be deferred and will be recognized as expenses over the same period that the related deferred revenue is recognized as revenue.

Subject to the above, payments for development activities are recognized as revenue when earned, over the period of effort. Funding for the acquisition of capital assets under cost-plus-fee contracts or grants is evaluated for appropriate recognition as a reduction to the cost of the asset, a financing arrangement, or revenue based on the specific terms of the related grant or contract.

For the years ended December 31, 2016, 2015, and 2014, revenues from BARDA and NIH were 100% of total revenues recognized by the Company.

Table of Contents**Research and Development**

Research and development expenses include costs directly and indirectly attributable to the conduct of research and development programs, and performance of the BARDA Contract, including employee related costs, materials, supplies, depreciation on and maintenance of research equipment, the cost of services provided by outside contractors, including services related to the Company's clinical trials and facility costs, such as rent, utilities, and general support services. All costs associated with research and development are expensed as incurred. Costs related to the acquisition of technology rights, for which development work is still in process, and that have no alternative future uses, are expensed as incurred.

Goodwill

The Company evaluates goodwill for impairment at least annually or as circumstances warrant. The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. The Company operates as one business and one reporting unit. Therefore, the goodwill impairment analysis is performed on the basis of the Company as a whole, using the market capitalization of the Company as an estimate of its fair value.

Share-based Compensation

Stock-based compensation expense for all share-based payment awards made to employees and directors is determined on the grant date; for options awards, fair value was estimated using the Black-Scholes model and for stock appreciation rights ("SARs"), fair value was estimated using the Monte Carlo method. The value of the portion of the award that is ultimately expected to vest is recorded as expense over the requisite service periods in the Company's consolidated statement of operations.

These compensation costs are recognized net of an estimated forfeiture rate over the requisite service periods of the awards. Forfeitures are estimated on the date of the respective grant and revised if actual or expected forfeiture activity differs from original estimates.

Income Taxes

The Company recognizes income taxes utilizing the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities at enacted tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is established if it is more likely than not that some or the entire deferred tax asset will not be realized. 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.

Net Loss per Share

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 Company incurred losses for the years ended December 31, 2016, 2015 and 2014. For all periods presented, all 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:

	Year Ended December 31,		
	2016	2015	2014
Stock Options	1,789,751	2,047,083	2,179,643
Stock-Settled Stock Appreciation Rights	360,031	368,331	388,325
Restricted Stock Units	705,850	700,265	1,206,534

Warrants	877,303	82,192	772,903
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As discussed in Note 6, the appreciation of each SSAR 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.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, restricted 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.

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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 certain inputs are unobservable to third parties to determine the fair value of certain common stock warrants on a recurring basis and classify such liability classified warrants in Level 3. On September 2, 2016, the date of issuance of the current liability classified warrant, the Company used a Monte Carlo simulation model to calculate the fair market value of the warrant. The Company compared the Monte Carlo simulation model calculation to a Black-Scholes model calculation. These models generated substantially equal values. As such, the Company utilized a Black-Scholes model for December 31, 2016, consisting of the following variables: (i) the closing price of SIGA's common stock; (ii) the expected remaining life of the liability classified 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 December 31, 2016, the fair value of liability classified warrant is \$6.7 million

At December 31, 2016, the fair value of the debt was \$69.9 million and the carrying value of the debt was \$66.6 million. The Company used a discounted cash flow model to estimate the fair value of the debt by applying a discount rate to future payments expected to be made as set forth in the Loan Agreement. The fair value of the loan was measured using level 3 inputs. The discount rate was determined using market participant assumptions. This valuation required significant judgment.

There were no transfers between levels of the fair value hierarchy during 2016.

The following table presents changes in the liability classified warrant measured at fair value using Level 3 inputs:

	Fair Value Measurements of Level 3 liability classified warrant
Warrant liability at September 02, 2016 - issuance date	\$ 5,832,624
Increase in fair value of warrant liability	894,785
Warrant liability at December 31, 2016	\$ 6,727,409

Legal Contingencies

The Company is subject to certain contingencies arising in the ordinary course of business. The Company records accruals for these contingencies to the extent that a loss is both probable and reasonably estimable. If some amount within a range of loss appears to be a better estimate than any other amount within the range, that amount is accrued. Alternatively, when no amount within a range of loss appears to be a better estimate than any other amount, the lowest

amount in the range is accrued. The Company expenses legal costs associated with loss contingencies as incurred. We record anticipated recoveries under existing insurance contracts when recovery is assured.

Segment Information

The Company is managed and operated as one business. The entire business is managed by a single management team that reports to the chief executive officer. The Company does not operate separate lines of business or separate business entities with respect to any of its product candidates. Accordingly, the Company does not prepare discrete financial information with respect to separate product areas or by location and only has one reportable segment.

Recent Accounting Pronouncements

On November 17, 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

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Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. 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. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact that ASU 2016-18 will have on its consolidated financial statements.

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 is currently evaluating the impact that ASU 2016-15 will have 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 assessed the impact of ASU 2016-09 and believes adoption of the ASU will not have a material impact on its consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02 Leases, which relates to the accounting of leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements.

In August 2014, the FASB issued Accounting Standard Update ("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 adopted ASU 2014-15 and for adoption impact see Note 1 to the financial statements under "liquidity".

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 periods beginning after December 15, 2016. The Company is assessing the potential impact of the variable consideration related to milestones and other payments received as well as the impact of the potential replacement obligation for courses already delivered to BARDA. The Company will continue to assess the impact of ASU 2014-09.

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 related to the manufacture and delivery of 1.7 million courses of TPOXX® and \$62 million of potential reimbursements connected to development and supportive activities (the "Base Contract").

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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. A total of 2.0 million courses of TPOXX® is required to be delivered to the Strategic Stockpile in order for the Company to receive the \$41 million hold back payment (see description of hold back payment below).

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 courses of TPOXX® that has been delivered to the Strategic Stockpile or if TPOXX® does not meet any specified 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.

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:

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 met the modified milestone and received payment.

As of December 31, 2016, the Company has received \$360.4 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®, the \$20.5 million milestone payment (referenced above) 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 \$278.4 million of payments for physical deliveries of TPOXX® to the Strategic Stockpile beginning in 2013.

As of December 31, 2016, the Company was eligible to receive an additional \$49.4 million under the Base Contract for the manufacture, delivery and purchase by BARDA of courses of TPOXX®. Included in this amount are: \$8.5 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 related 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 has cumulatively delivered 2.0 million courses of TPOXX® to the Strategic Stockpile and the Company does not have a continuing product replacement obligation to BARDA. In February 2017, the Company received an \$8.5 million payment for a product delivery made in January 2017 of TPOXX® courses.

With regard to future product deliveries after February 28, 2017, the Company expects to deliver approximately 467,000 courses of TPOXX® at no cost to BARDA 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). The “no cost to BARDA” courses are attributable to a change in TPOXX® dosage (see paragraph below). Courses delivered to the Strategic Stockpile are subject to a product replacement obligation.

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 was 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 cost to BARDA, with additional dosages so that all of the courses previously delivered to BARDA will be at the current provisional dosage. The Company and BARDA agreed to an amendment (the “BARDA Amendment”) of the BARDA Contract to reflect the foregoing. In February

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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 is incurring significant incremental costs with the production of additional dosage at no cost to BARDA.

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 December 31, 2016 and 2015, deferred direct costs under the BARDA Contract of approximately \$72.2 million and \$52.5 million, respectively, are included in deferred costs on the consolidated balance sheets. As of December 31, 2016, the Company recorded \$367.4 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 year ended December 31, 2016, revenue from reimbursed research and development was \$13.2 million.

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 \$18.0 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. Liabilities Subject to Compromise

Liabilities Subject to Compromise represented the Company's estimate, where an estimate was determinable, of known or potential pre-petition claims to be addressed in connection with its chapter 11 case. Subsequent to emergence from chapter 11 of the Bankruptcy Code on April 12, 2016, the Company paid all of its Liabilities Subject to Compromise (prepetition liabilities) in accordance with the Plan.

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As of December 31, 2016 and 2015, Liabilities Subject to Compromise consisted of the following:

	December 31, 31, 2016	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. In 2016, the Company received the \$1.2 million of cash collateralization from a surety bond upon satisfaction of the PharmAthene claim.

Reorganization Items, net:

Reorganization items represents expenses in connection with the chapter 11 case. Subsequent to emergence from chapter 11 of the Bankruptcy Code on April 12, 2016, \$684,000 of expenses that are related to the implementation of the Plan are reported in selling, general and administrative.

As of December 31, 2016 and 2015, reorganization items consisted of the following:

	December 31, 31, 2016	December 31, 2015
Legal fees	\$1,951,381	\$ 5,719,052
Professional fees	1,732,521	2,027,827
Trustee fees	33,000	59,000
Other	—	5,672
Total	\$3,716,902	\$ 7,811,551

The cash payments for the reorganization items for the years-ended December 31, 2016 and 2015 were \$4.6 million and \$6.7 million, respectively.

5. Stockholders' Equity

On December 31, 2016, the Company's authorized share capital consisted of 620,000,000 shares, of which 600,000,000 are designated common shares and 20,000,000 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. As of December 31, 2016 and 2015, no preferred shares were outstanding or issued.

Rights Offering

On November 16, 2016, the Company completed a rights offering (the "Rights Offering"), pursuant to which it raised approximately \$35.3 million in gross proceeds through the sale of 23,523,195 shares of its common stock. The Rights Offering was made pursuant to a registration statement on Form S-1 filed with the Securities and Exchange Commission (the "SEC") and declared effective by the SEC on October 21, 2016. 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 entitled 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 expired at 5:00 pm, New York City time, on November 8, 2016. Through basic subscriptions and oversubscriptions, the Rights Offering was fully subscribed. The subscription price was set at \$1.50. The Company

used the net proceeds of the Rights Offering, together with proceeds from the Loan Agreement and cash on hand, to fully satisfy PharmAthene's claim under the Plan.

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 M&F, and other backstop parties (the "Backstop Parties"). Under the term of the backstop agreement, the Backstop Parties agreed to purchase, pursuant to a separate private placement, a number of shares of common stock equal to the numbers of shares that would have not been subscribed for in the Rights Offering. Under the backstop agreement, the

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subscription price was set to be equal to the subscription price applicable to all shareholders under the Rights Offering. The Rights Offering was fully subscribed, the Backstop Parties were not required to draw on such commitment. The Company issued 708,530 shares to Backstop Parties in payment of the five percent backstop fee (\$1,764,240) payable to the Backstop Parties in connection with the backstop agreement entered into between the Company and the Backstop Parties. When shares were issued to the Backstop Parties in payment of the backstop fee, the stock price of SIGA common stock was \$2.49 per share (the closing price of the Company's common stock on November 16, 2016). The fair value of the shares issued in satisfaction of the backstop fee has been expensed on the income statement in 2016. There are no remaining payment obligations to the Backstop Parties under the Backstop Agreement.

2016 Warrant

On September 2, 2016, in connection with the entry into the Loan Agreement (see Note 7 to the financial statements for additional information), the Company issued a warrant (the "Warrant") to the Lender 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. 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 subscription price paid was \$1.50 in connection with the Rights Offering; accordingly, the exercise price of the Warrant has been set at \$1.50 per share.

The Company accounted for the Warrant in accordance with the authoritative guidance which requires that free-standing derivative financial instruments with certain anti-dilution features be classified as assets or liabilities at the time of the transaction, and recorded at their fair value. Any changes in the fair value of the derivative instruments are reported in earnings or loss as long as the derivative contracts are classified as assets or liabilities. Accordingly, the Company classified the Warrant as a liability and reported the change in fair value in the statement of operations.

On September 2, 2016, the issuance date of the Warrant, the fair value of the liability classified Warrant was \$5.8 million. The Company applied a Monte Carlo Simulation-model to calculate the fair value of the liability classified Warrant using the following assumptions: risk free interest rate of 1.60%; no dividend yield; an expected life of 10 years; and a volatility factor of 80%. The Company compared the Monte Carlo simulation model calculation to a Black-Scholes model calculation. These models generated substantially equal fair values for the Warrant. As such, the Company utilized a Black-Scholes model for December 31, 2016 to determine the fair value of the Warrant.

As of December 31, 2016, the fair value of the Warrant was \$6.7 million. A Black Scholes model was applied to calculate the fair value of the liability classified Warrant using the following assumptions: risk free interest rate of 2.44%; no dividend yield; an expected life of 9.67 years; and a volatility factor of 80%.

For the year-ended December 31, 2016, the Company recorded a loss of \$895,000 as a result of a net increase in fair value in the liability classified Warrant since its issuance on September 2, 2016.

6. Stock Compensation Plans

The Company's 2010 Stock Incentive Plan (the "2010 Plan") was initially adopted in May 2010. The 2010 Plan provided for the issuance of stock options, restricted stock and unrestricted stock with respect to an aggregate of 2,000,000 shares of the Company's Common Stock to employees, consultants and outside directors of the Company. On May 17, 2011, the 2010 Plan was amended to provide for the issuance of restricted stock units ("RSUs") and on February 2, 2012, the 2010 Plan was amended to provide for the issuance of SARs. Effective April 25, 2012, the 2010 Plan was amended to increase the maximum number of shares of Common Stock available for issuance to an aggregate of 4,500,000 shares. The vesting period for awards granted under the 2010 Plan, is determined by the Compensation Committee of the Board of Directors. The Compensation Committee also determines the expiration date of each

equity award, however, stock options and SARs may not be exercisable more than ten years after the date of grant as the maximum term of equity awards issued under the 2010 Plan is ten years.

For the years ended December 31, 2016, 2015 and 2014, the Company recorded stock-based compensation expense, including stock options, SARs, RSUs and certain warrant amortization, of approximately \$775,541, \$1.6 million and \$2.4 million, respectively.

Stock Options

Stock option awards provide holders the right to purchase shares of Common Stock at prices determined by the Compensation Committee and must have an exercise price equal to or in excess of the fair market value of the Company's common stock at the date of grant.

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There were no stock options granted during the years-ended 2016 and 2015.

The fair value of options granted prior to December 31, 2015 were estimated at the date of grant. Expected volatility has been estimated using a combination of the Company's historical volatility and the historical volatility of a group of comparable companies, both using historical periods equivalent to the options' expected lives. The expected dividend yield assumption is based on the Company's intent not to issue a dividend in the foreseeable future. The risk-free interest rate assumption is based upon observed interest rates for securities with maturities approximating the options' expected lives. The expected life was estimated based on historical experience and expectation of employee exercise behavior in the future giving consideration to the contractual terms of the award.

A summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2016	1,924,967	\$ 4.51		
Granted	—	—		
Exercised	—	—		
Canceled/Expired	(215,000)	2.47		
Outstanding at December 31, 2016	1,709,967	\$ 4.76	1.96	\$ —
Vested and expected to vest at December 31, 2016	1,709,967	\$ 4.76	1.96	\$ —
Exercisable at December 31, 2016	1,709,967	\$ 4.76	1.96	\$ —

As of December 31, 2016, \$4,000 of total remaining unrecognized stock-based compensation cost related to stock options is expected to be recognized over the weighted-average remaining requisite service period of 0.5 years. The total fair value of vested stock options was \$0, \$0 and \$144,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

The total intrinsic value of stock options exercised was \$0, \$5,900 and \$19,000 for the years ended December 31, 2016, 2015 and 2014, respectively. The intrinsic value represents the amount by which the market price of the underlying stock exceeds the exercise price of an option.

As of December 31, 2016 and 2015, 200,000 of the Company's outstanding options, were subject to specific performance conditions consisting of regulatory approval of our lead drug candidate.

Stock Appreciation Rights

Stock-settled stock appreciation rights ("SSARs") provide holders the right to purchase shares of Common Stock at prices determined by the Compensation Committee and must have an exercise price equal to or in excess of the fair market value of the Company's common stock at the date of grant. Upon exercise, the gain, or intrinsic value, is settled by the delivery of SIGA stock to the employee.

There were no SSARs granted during the years ended 2016 and 2015. During the year ended December 31, 2012, the Company granted 1.4 million shares of SSARs at a weighted average grant-date fair value of \$0.68 per share. The exercise price of a SSAR is equal to the closing market price on the date of grant. The granted SSARs vest in equal annual installments over a period of three years and expire no later than seven years from the date of grant. Moreover, the appreciation of each SSAR was capped at a determined maximum value. At December 31, 2016 and 2015, due to the cap on value the maximum number of shares that could be issued in the future was 360,031 and 365,689, respectively.

The fair value of granted SSARs has been estimated utilizing a Monte Carlo method. The Monte Carlo method is a statistical simulation technique used to provide the grant-date fair value of an award. As the issued SSARs were capped at maximum values, such attribute was considered in the simulation.

The Company calculates the expected volatility using a combination of SIGA's historical volatility and the volatility of a group of comparable companies. The expected life from grant date was estimated based on the expectation of exercise behavior in consideration of the maximum value and contractual term of the SSARs. The dividend yield assumption is based on the Company's intent not to issue a dividend in the foreseeable future. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected life of the SSARs.

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A summary of the Company's SSAR activity is as follows:

	Number of SSARs	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2016	1,209,274	\$ 3.53		
Granted	—	—		
Exercised	—	—		
Canceled/Expired	(26,250)	3.53		
Outstanding at December 31, 2016	1,183,024	\$ 3.53	2.09	\$ —
Vested and expected to vest at December 31, 2016	1,183,024	\$ 3.53	2.09	\$ —
Exercisable at December 31, 2016	1,183,024	\$ 3.53	2.09	\$ —

The total fair value of vested SSARs was \$0, \$0 and \$267,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

Restricted Stock Awards/Restricted Stock Units

RSUs awarded to employees vest in equal annual installments over a three-year period and RSUs awarded to directors of the Company vest over a one-year period. A summary of the Company's RSU activity is as follows:

	Number of RSUs	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2016	661,671	\$ 2.96
Granted	1,302,353	2.24
Vested	(483,335)	2.81
Canceled/Expired	(25,000)	3.35
Outstanding at December 31, 2016	1,455,689	\$ 2.36

As of December 31, 2016, \$2.8 million of total remaining unrecognized stock-based compensation cost related to RSUs is expected to be recognized over the weighted-average remaining requisite service period of 2.38 years. The weighted average fair value at the date of grant for restricted stock awards granted during the years ended December 31, 2016, 2015 and 2014 was \$2.24, \$2.00 and \$3.23 per share, respectively. Based on the grant date, the total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2016, 2015 and 2014 was \$1.4 million, \$1.8 million and \$1.5 million.

7. Debt

On September 2, 2016, the Company 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 received \$80 million on November 16, 2016 having satisfied certain pre-conditions. Proceeds related to the Loan Agreement (\$80 million) had been placed in an escrow account on September 30, 2016 (the "Escrow Funding Date"). Prior to the Escrow Release Date (November 16, 2016), the Company did not have access to, or any ownership interest in, the escrow account. Until the Escrow Release Date occurred, the Company did not have an obligation to make any payments under the Loan Agreement, no security was granted under the Loan Agreement and no affirmative or negative covenants or events of default were effective under the Loan Agreement. Amounts were held in the escrow account until the satisfaction of certain conditions including the closing of the Rights Offering on November

16, 2016. Amounts held in the escrow account between September 30, 2016 and November 15, 2016 bore interest at a per annum rate equal to the Adjusted LIBOR Rate (as defined in the Loan Agreement) plus 11.50%. Interest on amounts held in the escrow account became payable only when the Escrow Release Date occurred. As part of the satisfaction of the PharmAthene claim, funds were released from the escrow account (the date on which such transfer occurred, 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 was placed in a reserve account (the “Reserve Account”) only be utilized to pay interest on the Term Loan as it becomes due; (ii) an additional \$5,000,000 was also placed 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

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any of such amount is required to fund any interest to the extent any interest in excess of the aforementioned \$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) was paid to PharmAthene as part of the final payment to satisfy the PharmAthene claim. Interest on the Term Loan is at a per annum rate equal to the Adjusted LIBOR rate plus 11.50%, subject to adjustments as set forth in the Loan Agreement. At December 31, 2016, the effective interest rate on the Term Loan was 18.30%. The Company incurred approximately \$1.8 million of interest expense during the year-ended December 31, 2016, of which \$1.2 million was paid from restricted cash.

The Term Loan shall mature on the earliest to occur of (i) the four year anniversary of the Escrow Release Date, and (ii) the acceleration of certain obligations pursuant to the Loan Agreement. At maturity, \$80 million of principal will be repaid, and an additional \$4 million will be paid (see below). Prior to maturity, there are no scheduled principal payments.

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 provision 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 has granted 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 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.

As of December 31, 2016, the Company is in compliance with the Loan Agreement covenants.

In connection with the Loan Agreement, the Company incurred \$8.2 million of costs (including interest on amounts held in the escrow account between September 30, 2016 and November 15, 2016). Furthermore, an incremental \$4 million will become payable when principal of the Term Loan is repaid. As part of the Company's entry into the Loan Agreement, the Company issued the Warrant with a fair market value of \$5.8 million. The fair value of the Warrant, as well as costs related to the Term Loan issuance, are recorded as deductions to the Term Loan balance on the Balance Sheet. These amounts are being amortized using the effective interest method over the life of the related Term Loan. The \$4 million that will be paid when principal is repaid is being accreted to the Term Loan balance each quarter on a per diem basis.

8. Related Party Transactions

On October 13, 2016, in connection with the Rights Offering as discussed above, the Company entered into an investment agreement or "Backstop Agreement," with M&F, and other backstop parties (the "Backstop Parties"). Under the term of the Backstop Agreement, the Backstop Parties agreed to purchase, pursuant to a separate private placement, a number of shares of common stock equal to the numbers of shares that would have not been subscribed for in the Rights Offering. Under the Backstop Agreement, the subscription price was set to be equal to the subscription price applicable to all shareholders under the Rights Offering. The Rights Offering was fully subscribed, the Backstop Parties were not required to draw on such commitment. When shares were issued to the Backstop Parties in payment of the backstop fee, the stock price of SIGA common stock was \$2.49 per share (the closing price of the Company's common stock on November 16, 2016). The fair value of the shares issued in satisfaction of the backstop fee has been expensed on the income statement in 2016. There are no remaining payment obligations to the Backstop Parties under the Backstop Agreement.

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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 a prior Office Services Agreement, and occupancy commenced on April 1, 2013. 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.

A member of the Company's Board of Directors is a member of the Company's outside counsel. During the years ended December 31, 2016, 2015 and 2014, the Company incurred costs of \$1.5 million, \$602,000 and \$822,000, respectively, related to services provided by the outside counsel. On December 31, 2016, the Company's outstanding payables included \$93,573 payable to the outside counsel.

9. Inventory

Due to the deferral of revenue under the BARDA Contract (see Note 3 to the financial statement for additional information), amounts that would be otherwise recorded as cost of goods sold for delivered courses are recorded as deferred costs on the balance sheet. 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 December 31, 2016 and 2015:

	2016	2015
Work in-process	\$ 18,916,084	\$ 12,447,088
Finished goods	7,293,880	—
Inventory	\$ 26,209,964	\$ 12,447,088

For the year ended December 31, 2015, research and development expense included inventory write-downs of approximately \$60,000.

10. Property, Plant and Equipment

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

	2016	2015
Leasehold improvements	\$ 2,542,044	\$ 2,542,044
Computer equipment	770,479	754,502
Furniture and fixtures	455,220	452,696
	3,767,743	3,749,242
Less - accumulated depreciation	(3,468,266)	(3,299,417)
Property, plant and equipment, net	\$ 299,477	\$ 449,825

Depreciation and amortization expense on property, plant, and equipment was \$174,275, \$247,357, and \$351,561 for the years ended December 31, 2016, 2015, and 2014, respectively.

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11. Accrued Expenses

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

	2016	2015
Bonus	\$2,357,194	\$580,801
Professional fees	481,641	597,721
Vacation	262,664	227,863
Other (primarily R&D vendors and CMOs)	1,483,253	1,982,223
Accrued expenses and other current liabilities	\$4,584,752	\$3,388,608

12. Income Taxes

At December 31, 2016, 2015 and 2014 the Company's provision benefit for income taxes is comprised of the following:

	2016	2015	2014
Current:			
Federal	\$(5,093)	\$439,934	\$(10,428)
State and local	(1,446)	946	(30,375)
Total current provision (benefit)	(6,539)	440,880	(40,803)
Deferred:			
Federal	21,252	19,006	53,198,632
State and local	(829)	2,097	370,439
Total deferred provision	20,423	21,103	53,569,071
Total provision	\$13,884	\$461,983	\$53,528,268

At December 31, 2016 and 2015, the Company's deferred tax assets and liabilities are comprised of the following:

	2016	2015
Deferred income tax assets:		
Net operating losses	\$72,726,440	\$22,701,028
Deferred research and development costs	669,602	1,130,413
Amortization of intangible assets	665,531	887,906
Share-based compensation	1,687,243	1,947,019
Fixed assets	667,008	662,011
Deferred revenue	102,520,433	59,892,477
Alternative minimum tax credits	2,029,190	2,034,283
Loss contingency	—	73,421,980
Other	1,337,941	—
Deferred income tax assets	182,303,388	162,677,117
Less: valuation allowance	(155,465,173)	(143,522,669)
Deferred income tax assets, net of valuation allowance	\$26,838,215	\$19,154,448
Deferred income tax liabilities:		
Amortization of goodwill	(287,729)	(267,598)
Capitalized contract costs	(25,854,435)	(18,922,571)
Other	(982,117)	(229,922)
Deferred income tax liability, net	\$(286,066)	\$(265,643)

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. The Company assesses all available positive and negative evidence

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to determine if its existing deferred tax assets are realizable on a more-likely-than-not basis. In making such assessment, the Company considered the reversal of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operating results. The ultimate realization of a deferred tax asset is ultimately dependent on the Company's generation of sufficient taxable income within the available net operating loss carryback and/or carryforward periods to utilize the deductible temporary differences. Based on the weight of available evidence including three-year cumulative pre-tax losses, the Company continued to conclude that its deferred tax assets are not realizable on a more-likely-than-not basis and that a full valuation allowance is required.

The valuation allowance increased by \$11.9 million from prior year related primarily to current year operating losses for which no tax benefit was provided. The Company may amortize indefinite-lived intangible assets for tax purposes which are not amortizable for financial reporting purposes. The deferred tax liability at December 31, 2016 and December 31, 2015 relates to the tax effect of differences between financial reporting and tax bases of intangible assets that are not expected to reverse within the Company's net operating loss carryforward period.

As of December 31, 2016, the Company had \$204.9 million of federal net operating loss carryforwards, which expire in 2023 to 2036, to offset future taxable income. In addition, approximately \$1.6 million of federal net operating loss carryforwards are attributable to excess tax deductions on share-based compensation activity which will be realized as a benefit to Additional Paid-in Capital when such deductions reduce income taxes payable. As of December 31, 2016, the Company has approximately \$2.0 million of alternative minimum tax credit which will be carried forward indefinitely.

The Company's effective tax rate differs from the U.S. Federal Statutory income tax rate of 35% as follows:

	2016	2015	2014
Statutory federal income tax rate	(35.0)%	(35.0)%	(35.0)%
State tax benefit	0.6 %	— %	0.2 %
Gain (loss) from fair value of common warrants	0.8 %	— %	— %
Reorganization costs	3.3 %	7.0 %	0.4 %
Other	0.2 %	1.4 %	— %
Valuation allowance on deferred tax assets	30.1 %	27.8 %	59.7 %
Effective tax rate	— %	1.2 %	25.3 %

For the year ended December 31, 2016 and December 31, 2015, the Company's effective tax rate differs from the statutory rate principally due to operating losses for which no tax benefit was provided and nondeductible reorganization expenses. For the year ended December 31, 2014 the Company's effective tax rate differs from the statutory rate principally due to the Company's conclusion that they could no longer realize its deferred tax assets on a more-likely-than-not basis..

The Company applies the applicable authoritative guidance which prescribes a comprehensive model for the manner in which a company should recognize, measure, present and disclose in its financial statements all material uncertain tax positions that the Company has taken or expects to take on a tax return. As of December 31, 2016 and 2015, the Company has no uncertain tax positions. There are no uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months from December 31, 2016.

The Company files federal income tax returns and income tax returns in various state and local tax jurisdictions. The open tax years for U.S. federal, state and local tax returns is 2013 - 2016; open tax years relating to any of the company's net operating losses begin in 1998. In the event that the Company concludes that it is subject to interest and/or penalties arising from uncertain tax positions, the Company will present interest and penalties as a component of income taxes. No amounts of interest or penalties were recognized in the Company's consolidated financial

statements for each of the years in the three-year period ended December 31, 2016.

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13. Commitments and Contingencies

Operating lease commitments

The Company leases its Corvallis, Oregon, facilities and office space under an operating lease, most recently amended in April 2015, which expires in 2017. Pursuant to an order entered by the Bankruptcy Court in April 2015, the Company assumed the Corvallis Lease with Research Way Investments, as amended by the Tenth Addendum to Commercial Lease, for the Company's research and development facility. In connection with the Tenth Addendum to the Commercial Lease, the Company relinquished the second floor space at its research and development facility, which reduces the rent expense to approximately \$35,000 per month, starting May 1, 2015. In January 2013, we entered into a sublease with an affiliate of M&F for corporate office space in New York City under an operating lease which commenced in April 2013 and expires in 2020 (see Note 8 for further description of the lease arrangement). The respective leases contain annual escalation clauses, renewal provisions and generally require us to pay utilities, insurance, taxes and other operating expenses. Rental expense, including charges for maintenance, utilities, real estate taxes and other operating expenses, totaled \$1.2 million, \$1.4 million and \$1.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Future minimum cash rental commitments under non-cancelable operating leases as of December 31, 2016 are expected to be in the future as follows:

2017	1,242,797
2018	739,772
2019	766,476
2020	512,788
Total	\$3,261,833

Legal Proceedings

After several years of proceedings in litigation initiated by PharmAthene in 2006, the Delaware Court of Chancery on August 8, 2014 issued an opinion and order in which it determined, among other things, that PharmAthene was entitled to a lump sum damages award for its lost profits including interest and fees, based on SIGA's contract with BARDA for the purchase of 2 million courses of TPOXX® which was allegedly anticipated as of December 2006. 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), except that the parties agreed by stipulation approved by the Court on October 8, 2014 that the litigation could proceed. On January 15, 2015, the Delaware Court of Chancery entered its Final Order and Judgment (the "Final Order and Judgment") awarding PharmAthene approximately \$195 million, including pre-judgment interest up to January 15, 2015 (the "Outstanding Judgment"). On December 23, 2015 the Delaware Supreme Court affirmed the Outstanding Judgment (the "Delaware Supreme Court Affirmation"). Pursuant to the Final Order and Judgment, SIGA also was liable to PharmAthene for \$30,663.89 per day in post-judgment interest. On a series of dates up to and including a final payment on November 16, 2016, the Company paid PharmAthene an aggregate of \$217 million to fully satisfy the Outstanding Judgment, including post-judgment interest, in accordance with the Plan as described in Note 1 to the financial statements.

From time to time, we may be involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, collections claims, breach of contract claims, labor and employment claims, tax and other matters. Although such claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of such current pending matters, if any, will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of legal costs, diversion of management resources and other factors.

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14 Financial Information By Quarter (Unaudited)

2016	Three Months Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except for per share data)			
Revenues	1,270	1,901	4,658	7,159
Selling, general and administrative	2,656	3,739	2,855	4,464
Research and development	2,536	2,948	6,069	8,158
Patent preparation fees	220	240	230	219
Interest on PharmAthene liability	2,917	4,259	3,566	927
Operating loss	(7,059)	(9,285)	(8,062)	(6,609)
Net loss	(10,449)	(9,566)	(9,244)	(10,439)
Earnings (loss) per share: basic and diluted	(0.19)	(0.18)	(0.17)	(0.15)

2015	Three Months Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except for per share data)			
Revenues	\$1,192	\$1,468	\$ 1,327	\$ 4,189
Selling, general and administrative	3,088	2,605	2,321	2,568
Research and development	2,811	2,959	2,427	4,934
Patent preparation fees	333	236	194	246
Litigation accrual expense	—	—	14	14,393
Operating loss	(5,040)	(4,332)	(3,629)	(17,952)
Net loss	(7,153)	(6,573)	(5,631)	(20,094)
Earnings (loss) per share: basic and diluted	\$(0.13)	\$(0.12)	\$ (0.10)	\$ (0.38)

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2016 in accordance with the framework on Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 December 31, 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 December 31, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) or Rule 15d-15(f) of the Securities and Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- a. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the Company’s assets;
- b. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and
- c. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016 using the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation using the COSO criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Information required by this item is incorporated herein by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders.

Item 11. Executive Compensation

Information required by this item is incorporated herein by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is incorporated herein by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders.

Equity Compensation Plan Information

The following table sets forth certain compensation plan information with respect to compensation plans as of December 31, 2016:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, Rights and Restricted Stock Units(1)	Weighted-average Exercise Price of Outstanding Options, Warrants, Rights and Restricted Stock Units	Number of Securities Available for Future Issuance under Equity Compensation Plans (2)
Equity compensation plans approved by security holders	3,525,686	\$ 3.64	546,644
Equity compensation plans not approved by security holders			
Total	3,525,686		546,644

(1) Consists of the 1996 Incentive and Non-Qualified Stock Option Plan and the 2010 Stock Incentive Plan.

(2) Consists of the 2010 Stock Incentive Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is incorporated herein by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

Information required by this item is incorporated herein by reference to our definitive proxy statement for the 2016 Annual Meeting of Stockholders.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) and (2). Financial Statements.

See Index to Financial Statements under Item 8 in Part II hereof where these documents are listed. All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a) (3). Exhibits.

The following is a list of exhibits:

Exhibit No.	Description
2.1(a)	Debtor's Chapter 11 Plan (incorporated by reference to the Current Report on Form 8-K of the Company filed on December 15, 2015).
2.1(b)	Findings of Fact, Conclusions of Law and Order Pursuant to Sections 1129(a) and (b) of the Bankruptcy Code and Rule 3020 of the Federal Rules of Bankruptcy Procedure Confirming Debtor's Third Amended Chapter 11 Plan (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
3(a)	Amended and Restated Certificate of Incorporation of SIGA Technologies, Inc. (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
3(b)	Amended and Restated Bylaws of SIGA Technologies, Inc. (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
3(c)	Amendment to Amended and Restated Bylaws of SIGA Technologies, Inc. (incorporated by reference to the Current Report on Form 8-K of the Company filed on December 13, 2016).
4(a)	Form of Common Stock Certificate (incorporated by reference to the Form SB-2 Registration Statement of the Company dated March 10, 1997 (No. 333-23037)).
4(b)	Registration Rights Agreement, dated as of August 13, 2003, between the Company and MacAndrews & Forbes Holdings Inc. (incorporated by reference to the Current Report on Form 8-K of the Company filed on August 18, 2003).
4(c)	Form of Warrant to purchase shares of common stock of the Company, issued to MacAndrews & Forbes, LLC on June 19, 2008 (incorporated by reference to the Current Report on Form 8-K of the Company filed on June 23, 2008).
4(d)	Form of Consideration Warrant issued to MacAndrews & Forbes, LLC on April 30, 2013 (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 15, 2013).
10(a)	Securities Purchase Agreement, dated as of August 13, 2003, between the Company and MacAndrews & Forbes Holdings Inc. (incorporated by reference to the Current Report on Form 8-K of the Company filed on August 18, 2003).
10(b)	Letter Agreement dated October 8, 2003 among the Company, MacAndrews & Forbes Holdings Inc. and TransTech Pharma, Inc. (incorporated by reference to the Current Report on Form 8-K of the Company filed

on August 18, 2003).

10(c) Amended and Restated Employment Agreement, dated as of January 22, 2007, between the Company and Dennis E. Hruby (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 22, 2007).

10(d) Amended Employment Agreement dated December 31, 2011, to January 27, 2007 Employment Agreement (as amended) between the Company and Dr. Hruby (incorporated by reference to the Current Report on Form 8-K of the Company filed on December 27, 2011).

- 10(e) Amended and Restated Employment Agreement, dated as of January 22, 2007, between the Company and Dennis E. Hruby (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 22, 2007).
- 10(f) Amended Employment Agreement dated December 31, 2011, to January 27, 2007 Employment Agreement (as amended) between the Company and Dr. Hruby (incorporated by reference to the Current Report on Form 8-K of the Company filed on December 27, 2011).
- 10(g) Letter Agreement, dated as of June 19, 2008, between the Company and MacAndrews & Forbes, LLC (incorporated by reference to the Current Report on Form 8-K of the Company filed on June 23, 2008).
- 10(h) Employment Agreement, dated as of January 31, 2007, between the Company and Eric A. Rose (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 31, 2007), as amended and restated (as set forth in the Current Report on Form 8-K of the Company filed on November 17, 2008).
- 10(i) Amendment to Employment Agreement, dated March 11, 2009, between the Company and Dennis E. Hruby (incorporated by reference to the Current Report on Form 8-K of the Company filed on March 12, 2009).
- 10(j) Employment Agreement dated as of February 10, 2011, between SIGA and Daniel J. Luckshire (incorporated by reference to the Current Report on Form 8-K of the Company filed on February 16, 2011).
- 10(k) 2010 Stock Incentive Plan dated May 13, 2010 (incorporated by reference to the Definitive Proxy Statement on Schedule 14A of the Company filed on April 12, 2010).
- 10(l) Amendment to the SIGA Technologies, Inc. 2010 Stock Incentive Plan (incorporated by reference to the Current Report on Form 8-K of the Company filed on May 17, 2011).
- 10(m) Deferred Closing and Registration Rights Agreement, dated as of June 18, 2010, between MacAndrews & Forbes LLC and the Company (incorporated by reference to the Current Report on Form 8-K of the Company filed on June 22, 2010).
- 10(n) Contract dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Current Report on Form 8-K of the Company filed on May 17, 2011).
- 10(o) Amendment of Solicitation/Modification of Contract dated as of June 24, 2011, to Agreement dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Current Report on Form 8-K of the Company filed on June 28, 2011).
- 10(p) Amendment to Employment Agreement, dated January 22, 2007, between the Company and Dr. Dennis Hruby (incorporated by reference to the Current Report on Form 8-K of the Company filed on December 27, 2011).
- 10(q) Amendment to Employment Agreement, dated November 17, 2008, between the Company and Dr. Eric Rose (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 13, 2012).

- 10(r) Amendment to the SIGA 2010 Stock Incentive Plan (incorporated by reference to the Current Report on Form 8-K of the Company filed on February 2, 2012).
- 10(s) Director Compensation Program, effective January 1, 2012 (incorporated by reference to the Definitive Proxy Statement on Form DEF 14A of the Company filed on April 27, 2012).

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- 10(t) Amendment of Solicitation/Modification of Contract dated as of September 28, 2011, to Agreement dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 7, 2012).
- 10(u) Amendment of Solicitation/Modification of Contract dated as of October 7, 2011, to Agreement dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 7, 2012).
- 10(v) Amendment of Solicitation/Modification of Contract dated as of January 25, 2012 to Agreement, dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 7, 2012).
- 10(w) Amendment of Solicitation/Modification of Contract dated as of February 7, 2012, to Agreement, dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 7, 2012).
- 10(x) Amendment to the SIGA 2010 Stock Incentive Plan (incorporated by reference to the Current Report on Form 8-K of the Company filed on May 25, 2012).
- 10(y) Employment Agreement dated as of June 4, 2012, between SIGA and William J. Haynes II (incorporated by reference to the Current Report on Form 8-K of the Company filed on June 4, 2012).
- 10(z) Loan and Security Agreement, dated as of December 31, 2012, between General Electric Capital Corporation and the Company (incorporated by reference to the Current Report on Form 8-K of the Company filed on January 1, 2013).
- 10(aa) Amendment of Solicitation/Modification of Contract dated as of December 19, 2012, to Agreement, dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Annual Report on Form 10-K of the Company filed on March 6, 2013).
- 10(bb) Amendment of Solicitation/Modification of Contract dated as of February 28, 2013, to Agreement, dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (incorporated by reference to the Annual Report on Form 10-K of the Company filed on March 10, 2014).
- 10(cc) Amendment of Solicitation/Modification of Contract dated as of April 9, 2013, to Agreement, dated as of May 13, 2011, between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (incorporated by reference to the Annual Report on Form 10-K of the Company filed on March 10, 2014).
- 10(dd)

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Commercial Manufacturing Agreement, dated August 25, 2011, by and between Albemarle Corporation and SIGA (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 4, 2014).

10(ee) Addendum #1 to Commercial Manufacturing Agreement, dated December 21, 2012, to Commercial Manufacturing Agreement, dated August 25, 2011, by and between Albemarle Corporation and SIGA (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 4, 2014).

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- 10(ff) Addendum #2 to Commercial Manufacturing Agreement, dated July 1, 2013, to Commercial Manufacturing Agreement, dated August 25, 2011, by and between Albemarle Corporation and SIGA (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 4, 2014).
- 10(gg) Addendum #3 to Commercial Manufacturing Agreement, dated July 2, 2014, to Commercial Manufacturing Agreement, dated August 25, 2011, by and between Albemarle Corporation and SIGA (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 4, 2014).
- 10(hh) Stipulation and Interim Order Regarding Use of Cash Collateral and Adequate Protection, dated September 17, 2014, by and between SIGA and General Electric Capital Corporation (incorporated by reference to the Current Report on Form 8-K of the Company filed on September 18, 2014) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 4, 2014).
- 10(ii) Commercial Sublease New York City, dated January 9, 2013, by and between MacAndrews & Forbes Group, LLC and SIGA Technologies, Inc. (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 4, 2014).
- 10(jj) Commercial Lease, dated December 23, 1997, by and between Research Way Investments and SIGA Technologies, Inc. Second Addendum, dated January 22, 2002 by and between Research Way Investments and SIGA Technologies, Inc.; Third Addendum, dated July 16, 2004 by and between Research Way Investments and SIGA Technologies, Inc.; Fourth Addendum, dated October 1, 2004 by and between Research Way Investments and SIGA Technologies, Inc.; Fifth Addendum, dated January 1, 2007 by and between Research Way Investments and SIGA Technologies, Inc.; Sixth Addendum, dated January 1, 2008 by and between Research Way Investments and SIGA Technologies, Inc.; Seventh Addendum, dated March 1, 2010 by and between Research Way Investments and SIGA Technologies, Inc.; Eight Addendum, dated June 1, 2011 by and between Research Way Investments and SIGA Technologies, Inc.; and Ninth Addendum, dated November 2, 2012 by and between Research Way Investments and SIGA Technologies, Inc. (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on November 4, 2014).
- 10(kk) Stipulation and Interim Order Regarding Use of Cash Collateral and Adequate Protection, dated September 17, 2014, by and between SIGA Technologies, Inc. and General Electric Capital Corporation (incorporated by reference to the Current Report on Form 8-K of the Company filed on September 18, 2014).
- 10(ll) Amendment to Commercial Manufacturing Agreement, dated April 29, 2015, to Commercial Manufacturing Agreement, dated August 25, 2011, by and between Albemarle Corporation and SIGA (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 6, 2015).
- 10(mm) Tenth Addendum to Commercial Lease, dated April 30, 2015, to Commercial Lease, dated December 23, 1997, by and between Research Way Investments and SIGA Technologies, Inc. (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 6, 2015).
- 10(nn) Amendment of Solicitation/Modification of Contract 0009, dated April 29, 2015, to Agreement, dated May 13, 2011 by and between SIGA and the Biomedical Advanced Research and Development Authority of the

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United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed on May 6, 2015).

10(oo) Amendment of Solicitation/Modification of Contract 0010, dated July 1, 2015, to Agreement, dated May 13, 2011 by and between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment).

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- 10(pp) Amendment of Solicitation/Modification of Contract 0011, dated December 19, 2015, to Agreement, dated May 13, 2011 by and between SIGA and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment).
- 10(qq) Amended and Restated Employment Agreement, dated April 12, 2016, between SIGA Technologies, Inc. and Eric A. Rose (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
- 10(rr) Amended and Restated Employment Agreement, dated April 12, 2016, between SIGA Technologies, Inc. and Daniel J. Luckshire (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
- 10(ss) Amended and Restated Employment Agreement, dated April 12, 2016, between SIGA Technologies, Inc. and Dennis E. Hruby (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
- 10(tt) Separation Agreement, dated January 5, 2016, between SIGA Technologies, Inc. and William J. Haynes (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
- 10(uu) Employment Agreement, dated April 12, 2016, between SIGA Technologies, Inc. and Robin Abrams (incorporated by reference to the Current Report on Form 8-K of the Company filed on April 14, 2016).
- 10(vv) Amendment of Solicitation/Modification of Contract 0013, dated June 28, 2016, to Agreement, dated May 13, 2011, between the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services and SIGA (portions of this exhibit have been omitted and separately filed with the Securities and Exchange Commission with a request for confidential treatment) (incorporated by reference to the Current Report on Form 8-K of the Company filed on July 5, 2016).

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Exhibit No.	Description
10(ww)	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(xx)	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(yy)	Warrant, dated as of September 2, 2016, by the Company in favor of OCM Strategic Credit SIGTEC 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).
10(zz)	Employment Agreement, dated as of October 13, 2016, between SIGA and Phillip Louis Gomez, III (incorporated by reference to the Current Report on Form 8-K of the Company filed on October 13, 2016).
10(aaa)	Amended and Restated Employment Agreement, dated as of October 13, 2016, between SIGA and Eric A. Rose (incorporated by reference to the Current Report on Form 8-K of the Company filed October 13, 2016).
10(bbb)	Investment Agreement, dated October 13, 2016, by and among SIGA Technologies, Inc., ST Holdings One LLC, Blackwell Partners LLC - Series A, Nantahala Capital Partners Limited Partnership, Nantahala Capital Partners II Limited Partnership, Silver Creek CS SAV, L.L.C. and Nantahala Capital Partners SI, LP (incorporated by reference to the Current Report on Form 8-K of the Company filed on October 19, 2016).
14	The Company's Code of Ethics and Business Conduct (incorporated by reference to the Annual Report on Form 10-KSB of the Company for the year ended December 31, 2003).
23.1	Consent of PRICEWATERHOUSECOOPERS LLP, Independent Registered Public Accounting Firm.
31.1	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer.
31.2	Certification pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer.
101.INS	XBRL Instance Document
101.SCH	Taxonomy Extension Schema Document

101.CAL Taxonomy Extension Calculation Linkbase Document

101.DEF Taxonomy Extension Definition Linkbase Document

101.LAB Taxonomy Extension Labels Linkbase Document

101.PRE Taxonomy Extension Presentation Linkbase Document

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Item 16. Form 10-K Summary
None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 7, 2017 By: /s/ Phillip
L. Gomez
Phillip L.
Gomez
Chief
Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title of Capacities	Date
/s/ Phillip L. Gomez Phillip L. Gomez	Chief Executive Officer and Director	March 7, 2017
/s/ Daniel J. Luckshire Daniel J. Luckshire	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 7, 2017
/s/ Eric A. Rose Eric A. Rose, M.D.	Executive Chairman	March 7, 2017
/s/ James J. Antal James J. Antal	Director	March 7, 2017
/s/ Michael J. Bayer Michael J. Bayer	Director	March 7, 2017
/s/ Thomas E. Constance Thomas E. Constance	Director	March 7, 2017
/s/ Jeffrey Kindler Jeffrey Kindler	Director	March 7, 2017
/s/ Joseph Marshall Joseph Marshall	Director	March 7, 2017
/s/ Paul G. Savas Paul G. Savas	Director	March 7, 2017

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/s/ Bruce Slovin
Bruce Slovin

Director

March 7, 2017

/s/ Andrew Stern
Andrew Stern

Director

March 7, 2017

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