SIGA TECHNOLOGIES INC
Form 10QSB
May 14, 2004

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the Quarter Ended March 31, 2004 — Commission File No. 0-23047

SIGA Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-3864870
(State or other jurisdiction of incorporation or organization)	(IRS Employer Id. No.)
420 Lexington Avenue, Suite 601 New York, NY	10170
(Address of principal executive offices)	(zip code)

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

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

None
(Title of Class)

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

common stock, $.0001 par value
(Title of Class)

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

As of May 11, 2004 the registrant had outstanding 23,439,158 shares of common stock.

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SIGA TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2004

ASSETS	
Current Assets	
Cash and cash equivalents	$ 6,808,161
Accounts receivable	41,505
Prepaid expenses	50,338
Total current assets	6,900,004
Equipment, net	308,260
Goodwill	898,334
Intangible assets, net	2,970,626
Other assets	177,391
Total assets	$ 11,254,615
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Accounts payable	$ 644,670
Accrued expenses and other	196,682
Total liabilities	841,352
Stockholders' equity	
Series A convertible preferred stock ($.0001 par value, 10,000,000 shares authorized, 81,366 and 81,366 issued and outstanding at March 31, 2004 and December 31, 2003, respectively)	72,666
Common stock ($.0001 par value, 50,000,000 shares authorized, 23,437,492 and 18,676,851 issued and outstanding at March 31, 2004 and December 31, 2003, respectively)	2,344
Additional paid-in capital	47,085,863
Accumulated deficit	(36,747,610)
Total stockholders' equity	10,413,263
Total liabilities and stockholders' equity	$ 11,254,615

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

SIGA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

	Three months ended March 31,	
	2004	2003
Revenues		
Research and development contracts	$ 161,217	$ 205,144
Operating expenses		

Selling, general and administrative	1,005,860	560,308
Research and development	1,019,541	477,499
Patent preparation fees	91,839	55,932
Total operating expenses	2,117,240	1,093,739
Operating loss	(1,956,023)	(888,595)
Interest income, net	16,455	6,357
Net loss	$ (1,939,568)	$ (882,238)
Weighted average shares outstanding: basic and diluted	23,010,544	13,243,162
Net loss per share: basic and diluted	(0.08)	$ (0.07)

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

SIGA TECHNOLOGIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Three months ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net loss	$ (1,939,568)	$ (882,238)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	89,153	83,747
Amortization of intangible assets	146,731	--
Changes in assets and liabilities:		
Accounts receivable	(2,719)	(117,895)
Prepaid expenses	--	40,325
Other assets	(2,396)	(2,683)
Accounts payable and accrued expenses	293,120	(113,471)
Net cash used in operating activities	(1,415,679)	(992,215)
Cash flows from investing activities:		
Capital expenditures	(18,367)	(138,054)
Net cash flow used in investing activities	(18,367)	(138,054)
Cash flows from financing activities:		

Net proceeds from issuance of common stock	6,784,607	791,940
Issuance of promissory note	--	(50,000)
Proceeds from exercise of warrants	16,876	--
Principal payments on capital lease obligations	--	(11,206)
Net cash provided from financing activities	6,801,483	730,734
Net increase (decrease) in cash and cash equivalents	5,367,437	(399,535)
Cash and cash equivalents at beginning of period	1,440,724	2,069,004
Cash and cash equivalents at end of period	$ 6,808,161	$ 1,669,469

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

Notes to the March 31, 2004 Financial Statements

1. Organization and Basis of Presentation

Organization

The financial statements of SIGA Technologies, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and the rules of the Securities and Exchange Commission (the "SEC") for quarterly reports on Forms 10-QSB and do not include all of the information and footnote disclosures required by generally accepted accounting principles for complete financial statements. These statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2003, included in the 2003 Form 10-KSB.

Basis of presentation

The accompanying financial statements have been prepared on a basis, which assumes that the Company will continue as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has incurred cumulative net losses and expects to incur additional losses to perform further research and development activities. The Company does not have commercial products and has limited capital resources. The Company anticipates that its current resources will be sufficient to finance anticipated needs for operations and capital expenditures approximately through the first quarter of 2005. Management's plans with regard to these matters include continued development of its products as well as seeking additional research support funds and financial arrangements. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient financing on terms acceptable to the Company. See Note 5 for recent private placement offerings.

2. Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of short term, highly liquid investments, with original maturities of less than three months when purchased and are stated at cost. Interest is accrued as earned.

Equipment

Equipment is stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are as follows: laboratory equipment - 5 years; leasehold improvements - life of lease; computer equipment - 3 years; furniture and fixtures - 7 years.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" which superceded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Under the provisions of SAB 104, the Company recognizes revenue from government research grants, contract research and development and progress payments as services are performed, provided a contractual arrangement exists, the contract price is fixed or determinable, and the collection of the resulting receivable is probable. In situations where the Company receives payment in advance of the performance of services, such amounts are deferred and recognized as revenue as the related services are performed. Non-refundable fees are recognized as revenue over the term of the arrangement or based on the percentage of costs incurred to date, estimated costs to complete and total expected contract revenue. Milestone payments, which generally are related to substantial scientific or technical achievement, are recognized as revenue when the milestone is accomplished.

Research and development

Research and development costs are expensed as incurred and include costs of third parties who conduct research and development, pursuant to development and consulting agreements, on behalf of the Company. 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 and considered a component of research and development costs.

Business Combinations, Goodwill and Intangible Assets

The Company accounts for business combinations in accordance with the provisions of Statement of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS 141"). SFAS 141 requires business combinations completed after June 30, 2001 to be accounted for using the purchase method of accounting. It also specifies the types of acquired intangible assets required to be recognized and reported separately from goodwill.

The Company accounts for the impairment of goodwill in accordance with the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The impairment test consists of a comparison of the fair value of goodwill with its carrying amount. If the carrying amount of goodwill exceeds its fair value, a second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. The annual impairment testing required under SFAS 142 requires management to make assumptions and judgments regarding the estimated fair value of the Company's goodwill. Such assumptions include the present value discount factor used to determine the fair value of a reporting unit, which is ultimately used to identify potential goodwill

impairment. Such estimated fair values might produce significantly different results if other reasonable assumptions and estimates were to be used.

The Company accounts for the impairment of long-lived assets such as acquired technology, non-compete agreements and research contracts in accordance with the provisions of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company compares the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company records an impairment charge for the difference between the carrying amount of the asset and its fair value. Changes in events or circumstances to the Company that may affect long-lived assets include, but are not limited to, cancellations or terminations of research contracts or pending government research grants.

Income taxes

Income taxes are accounted for under the asset and liability method prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

Net loss per share

The Company computes, presents and discloses earnings per share in accordance with SFAS 128 "Earnings Per Share" ("EPS") which specifies the computation, presentation and disclosure requirements for earnings per share of entities with publicly held common stock or potential common stock. The statement defines two earnings per share calculations, basic and diluted. The objective of basic 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, that is to measure the performance of an entity over the reporting period, while giving effect to all dilutive potential common shares that were outstanding during the period. The calculation of diluted EPS is similar to basic EPS except the denominator is increased for the conversion of potential common shares.

At March 31, 2004 and December 31, 2003, 81,366 and 81,366 shares, respectively, of the Company's Series A convertible preferred stock have been excluded from the computation of diluted loss per share as they are anti-dilutive. At March 31, 2004 and December 31, 2003, outstanding options to purchase 6,452,477 and 6,460,811 shares, respectively, of the Company's common stock with exercise prices ranging from $1.00 to $5.50 have been excluded from the computation of diluted loss per share as they are anti-dilutive. At March 31, 2004 and December 31, 2003, outstanding warrants to purchase 8,703,310 and 6,286,332 shares, respectively, of the Company's common stock, with exercise prices ranging from $1.00 to $3.63 have been excluded from the computation of diluted loss per share as they are anti-dilutive.

Accounting estimates

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 the disclosure of contingent assets and liabilities at the date of the financial statements and

the reported amounts of expenses

during the reporting period. Significant estimates include the fair value of goodwill and intangible assets and the value of options and warrants granted by the Company. Actual results could differ from those estimates.

Fair value of financial instruments

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

Concentration of credit risk

The Company has cash in bank accounts that exceed the FDIC insured limits. The Company has not experienced any losses on its cash accounts. No allowance has been provided for potential credit losses because management believes that any such losses would be minimal.

Accounting for stock based compensation

The Company has elected to account for its stock-based compensation programs according to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, compensation expense has been recognized to the extent of employee or director services rendered based on the intrinsic value of compensatory options or shares granted under the plans. The Company has adopted the disclosure provisions required by Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transaction and Disclosure, an amendment to FASB Statement No. 123."

Had compensation cost for stock options granted been determined based upon the fair value at the grant date for awards, consistent with the methodology prescribed under SFAS 123, the Company's net loss and net loss per share would have been as follows:

	Three Months Ended March 31,	
	2004	2003
Net loss, as reported	($1,939,568)	($ 882,238
Add: Stock-based employee compensation expense recorded under APB No. 25	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(98,150)	(22,745
Pro forma net loss	($2,037,718)	($ 904,983
Net loss per share:		
Basic and diluted -as reported	$ (0.08)	$ (0.07

Basic and diluted -pro forma	$ (0.09)	$ (0.07

The fair value of the options granted to employees during 2003 ranged from $0.09 to $2.75 on the date of the respective grant using the Black-Scholes option-pricing model. There were no options granted in the first quarter of 2004. The following weighted-average assumptions were used for 2003: no dividend yield, expected volatility of 100%, risk free interest rates of 2.89%-3.24% and an expected term of 3 to 5 years.

3. Business acquisition

On May 23, 2003, the Company acquired substantially all of the assets of Plexus and assumed certain liabilities in exchange for 1,950,000 shares of the Company's common stock and 190,950 of the Company's options and warrants at an exercise price of $1.62 per share. The results of operations of Plexus have been included in the statement of operations of the combined entity since May 23, 2003.

Selected Unaudited Pro Forma Financial Information

The Company has prepared a condensed pro forma statement of operations in accordance with SFAS 141, for the three months ended March 31, 2004 and 2003 as if Plexus were part of the Company as of January 1, 2004 and 2003, respectively.

	Three Months Ended March 31,	
	2004	2003
Revenues	$ 161,217	$ 270,244
Net loss	$ (1,939,568)	$ (2,698,574)
Net loss per common share - basic and diluted	$ (0.08)	$ (0.18)
Weighted average number of common shares outstanding	23,010,544	15,193,162

4. Intangible Assets

For the three months ended March 31, 2004, amortization of intangible assets that were acquired on May 23, 2003 was approximately $55,000 for acquired technology, approximately $41,000 for customer contact and grants, and approximately $51,000 for the covenant not to compete. The Company anticipates amortization expense to be approximately $447,019, $593,750, $593,750, $219,100, and $219,100 for the fiscal years ending December 31, 2004, 2005, 2006, 2007, and 2008, respectively.

5. Stockholders' Equity

At March 31, 2004, the Company's authorized share capital consisted of 60,000,000 shares, of which 50,000,000 are designated common shares and 10,000,000 are designated preferred shares. The Company's Board of Directors is authorized to issue preferred shares in series with rights, privileges and qualifications of each series determined by the Board.

Holders of the Series A Convertible Preferred Stock are entitled to (i) cumulative dividends at an annual rate of 6% payable when and if declared by the Company's board of directors; (ii) in the event of liquidation of the Company, each holder is entitled to receive $1.4375 per share (subject to certain adjustment) plus all accrued but unpaid dividends; (iii) convert each share of Series A to a number of fully paid and non-assessable shares of common stock as calculated by dividing $1.4375 by the Series A Conversion Price (shall initially be $1.4375); and (iv) vote with the holders of other classes of shares on an as-converted basis.

In January 2004, MacAndrews & Forbes Holdings Inc. ("MacAndrews & Forbes"), a holding company of which the Company's Chairman of the Board of Directors is Vice Chairman and a director, and TransTech Pharma, Inc., a related party to the Company and an affiliate of MacAndrews & Forbes ("TransTech Pharma"), completed the final portion of their investment, following the approval of the Company's stockholders at its annual meeting of stockholders held on January 8, 2004. Immediately following the stockholders' meeting, MacAndrews & Forbes invested $1,840,595 in exchange for 1,278,191 shares of common stock at a price of $1.44 per share, and warrants to purchase up to an additional 639,095 shares of common stock at an exercise price of $2.00 per share; and TransTech Pharma invested $5,000,000 in exchange for 3,472,222 shares of common stock and warrants to purchase up to an additional 1,736,111 shares of common stock on the same terms. In addition, as part of the investment, MacAndrews & Forbes and TransTech Pharma each were given the right to appoint one board member to the Board of Directors, subject to certain terms and conditions. On January 8, 2004, in accordance with the terms of the investment, the respective designees of MacAndrews & Forbes and TransTech Pharma were appointed to serve on SIGA's board of directors.

Results of Operations

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

Overview

Since our inception in December 1995, we have been principally engaged in the research and development of novel products for the prevention and treatment of serious infectious diseases, including products for use in the defense against biological warfare agents such as Smallpox. The effort to develop a drug for Smallpox is being aided by a $1.6 million contract with the U.S. Army which began in January 2003.

We are developing technology for the mucosal delivery of our vaccines to activate the immune system at the mucus lined surfaces of the body, the mouth, the nose, the lungs and the gastrointestinal and urogenital tracts; the sites of entry for most infectious agents. Our anti-infectives programs are aimed at the increasingly serious problem of drug resistance, and they are designed to block the ability of infectious agents to attach to human tissue, the first step in the infection process. The acquisition of substantially all the assets of Plexus Vaccine, Inc. ("Plexus") in May 2003 expands our capabilities in biological warfare defense research and allows for the development of vaccines for smallpox, anthrax and plague, botulism and other biological pathogens. The acquisition can also facilitate development of vaccines for traditional human health targets.

We do not have commercial biomedical products, and we do not expect to have such products for several years, if at all. We believe that we will need additional funds to complete the development of our biomedical products. Our plans with regard to these matters include continued development of our products, as well as seeking additional research support funds and financial arrangements. Although we continue to pursue these plans, there is no assurance that we will be successful in obtaining sufficient financing on terms acceptable to us. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management believes it has sufficient funds to support operations for at least the next 12 months.

Our biotechnology operations are run out of our research facility in Corvallis, Oregon. We continue to seek to fund a major portion of our ongoing vaccine and antibiotic programs through a combination of government grants and strategic alliances. While we have had success in obtaining strategic alliances and grants, no assurance can be given that we will continue to be successful in obtaining funds from these sources. Until additional relationships are established, we expect to continue to incur significant research and development costs and costs associated with the manufacturing of product for use in clinical trials and pre-clinical testing. It is expected that general and administrative costs, including patent and regulatory costs necessary to support clinical trials and research and development, will continue to be significant in the future.

To date, we have not marketed, or generated revenues from the commercial sale of any products. Our biopharmaceutical product candidates are not expected to be commercially available for several years, if at all. Accordingly, we expect to incur operating losses for the foreseeable future. There can be no assurance that we will ever achieve profitable operations.

Significant Accounting Policies

Financial Reporting Release No. 60, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 2 of the Notes to the Financial Statements include a summary of the significant accounting policies and methods used in the preparation of our Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by us. In addition, Financial Reporting Release No. 67 was recently released by the SEC to require all companies to include a discussion to address, among other things, liquidity, off-balance sheet arrangements, contractual obligations and commercial commitments.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 104 ("SAB 104"), Revenue Recognition, which superceded Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, ("SAB 101"). Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Under the provisions of SAB 101, the Company recognizes revenue from government research grants, contract research and development and progress payments as services are performed, provided a contractual arrangement exists, the contract price is fixed or determinable, and the collection of the resulting receivable is probable. Milestone payments, which generally are related to substantial scientific or technical achievement, are recognized as revenue when the milestone is accomplished.

Income Taxes

Income taxes are accounted for under the asset and liability method prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized. A full valuation has been taken on the deferred taxes as the Company has had recurring losses since inception and expects to have a net loss in the upcoming year.

Business Combinations, Goodwill and Intangible Assets

We account for business combinations in accordance with the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 requires business combinations completed after June 30, 2001, to be accounted for using the purchase method of accounting. It also specifies the types of acquired intangible assets required to be recognized and reported separately from goodwill.

We account for the impairment of goodwill in accordance with the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). Goodwill is not subject to amortization and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset may be impaired. The impairment test consists of a comparison of the fair value of goodwill with its carrying amount. If the carrying amount of goodwill exceeds its fair value, a second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. The annual impairment testing required under SFAS 142 requires management to make assumptions and judgments regarding the estimated fair value of the Company's goodwill. Such assumptions include the present value discount factor used to determine the fair value of a reporting unit, which is ultimately used to identify potential goodwill impairment. Such estimated fair values might produce significantly different results if other reasonable assumptions and estimates were to be used.

We account for the impairment of long-lived assets such as non-compete agreements and research contracts in accordance with the provisions of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company compares the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company records an impairment charge for the difference between the carrying amount of the asset and its fair value. Changes in events or circumstances to the Company that may affect long-lived assets include cancellations or terminations of research contracts or pending government research grants.

Contractual Obligations, Commercial Commitments and Purchase Obligations

As of March 31, 2004, our purchase obligations were immaterial. We lease certain facilities and office space under operating leases. Minimum future rental commitments under operating leases having non-cancelable lease terms in excess of one year are as follows:

Year ended December 31,	
2004	$ 193,237
2005	86,398
2006	87,737
2007	94,921
2008	19,416
Thereafter	--
Total	$ 481,709

Recent Accounting Pronouncements

In December of 2003, the FASB revised its FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46R clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements". FIN 46R requires that a business enterprise review all of its legal structures used to conduct its business activities, including those to hold assets, and its majority-owned subsidiaries, to determine whether those legal structures are variable interest entities (VIEs) required to be consolidated for financial reporting purposes by the business enterprise. A VIE is a legal structure for which the holders of a majority voting interest may not have a controlling financial interest in the legal structure. FIN 46R provides guidance for identifying those legal structures and provides guidance for determining whether a business enterprise shall consolidate a VIE. FIN 46R requires that a business enterprise that holds a significant variable interest in a VIE make new disclosures in their financial statements. The Company adopted the provisions of FIN 46R for the period ended March 31, 2004. The Company does not hold any interests in VIEs that would require consolidation or additional disclosures.

Results of Operations

Three months ended March 31, 2004 and March 31, 2003

Revenues from grants and research and development contracts were $161,217 for the three months ended March 31, 2004, compared to $205,144 for the same period of 2003, an approximate 21% decrease. The decrease for the three months ended March 31, 2004 from the prior year reflects lower activity under the Small Business Innovation Grant (SBIR) from the National Institutes of Health (NIH) as the allocation of the two year grant was weighted higher in its initial year of allowance. Revenue from the U.S. Army contact was slightly lower for the three months ended March 31, 2004, which also contributed to the decrease.

Selling, general and administrative expenses for the three months ended March 31, 2004 were $1,005,860 an increase of approximately 80% from expenses of $560,308 for the three months ended March 31, 2003. Approximately half of the approximate $450,000 increase was due to materially higher professional fees, primarily legal expenses. The expenses were incurred as the result of costs incurred to review and amend our corporate governance policies and procedures to ensure compliance with Sarbanes Oxley regulations. Also contributing to the increase in legal expenses were costs incurred in connection with a review of a potential business combination and a legal action the Company initiated against a former consultant. Payroll expense accounted for approximately 21% of the increase in the three months ended March 31, 2004. The increase was primarily the result of the addition of former Plexus employees to our staff in May 2003 and therefore not included in the prior year balance. Consulting expenses for marketing efforts to present our programs to agencies of the federal government were also higher. Furthermore, the three months ended

March 31, 2004 also included approximately $51,000 of non-cash charges to amortize certain intangible assets acquired in the Plexus transaction in May 2003. No such charges were incurred in the three months ended March 31, 2003.

Research and development expenses increased approximately 114% to $1,019,541 for the three months ended March 31, 2004 from $477,499 for the same period in 2003. Non-cash charges of $95,951 for the amortization of certain intangible assets acquired in connection with the Plexus acquisition accounted for approximately 18% of the period to period increase. Payroll expense for the three months ended March 31, 2004, increased 69% to approximately $420,000 compared to prior year expense of approximately $248,000. The increase was the result of the addition of former Plexus employees to our staff, an increase in staff to accelerate development on our lead products and a bonus payment to our Chief Scientific Officer. Sponsored research expense increased by approximately $183,000 for the three months ended March 31, 2004 compared to the same period in 2003 as the result of payments for work being performed on former Plexus programs at a Danish University.

All of our product programs are in the early stage of development except for the strep vaccine which is in Phase I clinical trials. At this stage of development, we cannot make estimates of the potential cost for any program to be completed or the time it will take to complete the project. For the three months ended March 31, 2004, excluding non-cash charges of approximately $168,000, we estimate that we spent a total of approximately $850,000 on all our research programs: approximately $260,000 or 31% of the total for the development of the Smallpox antiviral; approximately $138,000 or 16% of the total on the strep vaccine; approximately $154,000, or 18% of the total on the DegP anti-infective; approximately $195,000, or 23% of the total on vaccines including those being developed under agreements acquired from Plexus; and remaining approximately 12% of the total on other anti-infectives. For the three months ended March 31, 2003, excluding non-cash charges of approximately $67,000, we estimate we spent a total of approximately $480,000 on all our product programs: approximately $81,000, or 17% of total for the strep vaccine program; approximately $154,000, or 32% of the total was for the smallpox program; approximately $91,000, or 19% of the total was for the DegP anti-infectives program; approximately $38,000, or 8% of the total for other anti-infectives; and approximately $115,000, or 24% of the total was for other vaccine programs including the smallpox vaccine. We are working with TransTech Pharma on our Smallpox and SARS anti-viral products and our DegP broad spectrum anti-biotic. There is a high risk of non-completion of any program because of the lead time to program completion and uncertainty of the costs. Net cash inflows from any products developed from these programs is at least two to three years away. However, we could receive additional grants, contracts or technology licenses in the short-term. The potential cash and timing is not known and we cannot be certain if they will ever occur.

The risk of failure to complete any program is high, as each is in the relatively early stage of development. Products for the biological warfare defense market, such as the Smallpox anti-viral, could be available for sale in two to three years. We believe the products directed toward this market are on schedule. We expect the future research and development cost of this program to increase as the potential products enter animal studies and safety testing. Funds for future development will be partially paid for by the contract we have with the U.S. Army, additional government funding and from future financing. If we are unable to obtain additional federal grants and contracts or funding in the required amounts, the development timeline for these products would slow or possibly be suspended. The clinical trials for our Strep vaccine through Phase II are being funded under an agreement with the NIH. The time to market for this product should be several years from now because of the nature of the FDA

requirements for approval of a pediatric vaccine. We expect to fund the development of the Strep vaccine beyond the Phase II clinical trials through a corporate collaboration or from additional funding from debt or equity financings. We do not yet have a corporate partner for this product and there is no assurance that we will ever have one or that we will be able to raise the funds needed to go forward. If the funding is not available or the clinical trials are not successful, the program could be delayed or cancelled. We believe this product program is on schedule. Delay or suspension of any of our programs could have an adverse impact on our ability to raise funds in the future, enter into collaborations with corporate partners or obtain additional federal funding from contracts or grants.

Patent preparation expenses for the three months ended March 31, 2004 were $91,839 compared to $55,932 for the three months ended March 31, 2003. The 64% increase was the result of increased costs of patent work required on the intellectual property acquired in the Plexus transaction, including foreign patent filings.

Total operating loss for the three months ended March 31, 2004 was $2,117,240, an approximate 94% increase from the $1,093,739 loss incurred for the three months March 31, 2003. The increase in the loss is the result of higher general and administration expenses and research and development expenses as described above. Approximately 14% of the increase in the net loss was the result of non-cash charges incurred in the three month ended March 31, 2004.

Interest income, net was $16,455 for the three months ended March 31, 2004, compared to $6,357 for the three months ended March 31, 2003. The increase is the result of higher cash balances in the three months ended March 31, 2004 compared to the prior year period.

Liquidity and Capital Resources

As of March 31, 2004, we had $6,808,161 in cash and cash equivalents.

In October 2003, MacAndrews & Forbes Holdings Inc. and its permitted assignees, exercised their option to invest an additional $9,000,000 in us under the terms of the agreement signed in August 2003, as amended in October 2003. Upon exercise of the option, we received gross proceeds of $2,159,405 in exchange for 1,499,587 shares of common stock at a price of $1.44 per share and warrants to purchase 749,794 shares of common stock. The warrants have an initial exercise price of $2.00 per share and a term of seven years. The sale of the remaining 4,750,413 shares of common stock and warrants to purchase 2,375,206 shares of common stock on the same terms was subject to shareholder

approval. On January 8, 2004, at a meeting of shareholders, the transaction was approved, the additional $6,840,595 of gross proceeds was received and the common shares and warrants were issued.

We anticipate that our current resources will be sufficient to finance our currently anticipated needs for operating and capital expenditures approximately through the first quarter of 2005. In addition, we will attempt to generate additional working capital through a combination of collaborative agreements, strategic alliances, research grants, equity and debt financing. However, no assurance can be provided that additional capital will be obtained through these sources or, if obtained, will be on commercially reasonable terms.

Our working capital and capital requirements will depend upon numerous factors, including pharmaceutical research and development programs;

pre-clinical and clinical testing; timing and cost of obtaining regulatory approvals; levels of resources that we devote to the development of manufacturing and marketing capabilities; technological advances; status of competitors; and our ability to establish collaborative arrangements with other organizations.

SIGA leases certain facilities and office space under operating leases. Minimum future rental commitments under operating leases having noncancellable lease terms are $193,237, $86,398 and $87,737 for the years ending December 31, 2004, 2005 and 2006, respectively.

Off-Balance Sheet Arrangements

SIGA does not have any off-balance sheet arrangements.

Risk Factors That May Affect Results of Operations and Financial Condition

This report contains forward-looking statements and other prospective information relating to future events. These forward-looking statements and other information are subject to risks and uncertainties that could cause our actual results to differ materially from our historical results or currently anticipated results including the following:

We have incurred operating losses since our inception and expect to incur net losses and negative cash flow for the foreseeable future.

We incurred net losses of approximately $1.9 million for the three months ended March 31, 2004, $5.3 million and approximately $3.3 million for the years ended December 31, 2003 and 2002, respectively. As of March 31, 2004, December 31, 2003 and December 31, 2002, our accumulated deficit was approximately $36.7 million, $34.8 million and approximately $29.5 million, respectively. We expect to continue to incur significant operating expenditures. We will need to generate significant revenues to achieve and maintain profitability.

We cannot guarantee that we will achieve sufficient revenues for profitability. Even if we do achieve profitability, we cannot guarantee that we can sustain or increase profitability on a quarterly or annual basis in the future. If revenues grow slower than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, then our business, results of operations and financial condition will be materially and adversely affected. Because our strategy includes acquisitions of other businesses, acquisition expenses and any cash used to make these acquisitions will reduce our available cash.

Our business will suffer if we are unable to raise additional equity funding.

We continue to be dependent on our ability to raise money in the equity markets. There is no guarantee that we will continue to be successful in raising such funds. If we are unable to raise additional equity funds, we may be forced to discontinue or cease certain operations. We currently have sufficient operating capital to finance our operations into approximately the first quarter of 2005. Our annual operating needs vary from year to year depending upon the amount of revenue generated through grants and licenses and the amount of projects we undertake, as well as the amount of resources we expend, in connection with acquisitions all of which may materially differ from year to year and may adversely affect our business.

Our stock price is, and we expect it to remain, volatile, which could limit

investors' ability to sell stock at a profit.

The volatile price of our stock makes it difficult for investors to predict the value of their investment, to sell shares at a profit at any given time, or to plan purchases and sales in advance. A variety of factors may affect the market price of our common stock. These include, but are not limited to:

- publicity regarding actual or potential clinical results relating to products under development by our competitors or us;
- delay or failure in initiating, completing or analyzing pre-clinical or clinical trials or the unsatisfactory design or results of these trials;
- achievement or rejection of regulatory approvals by our competitors or us;
- announcements of technological innovations or new commercial products by our competitors or us;
- developments concerning proprietary rights, including patents;
- developments concerning our collaborations;
- regulatory developments in the United States and foreign countries;
- economic or other crises and other external factors;
- period-to-period fluctuations in our revenues and other results of operations;
- changes in financial estimates by securities analysts; and
- sales of our common stock.

Additionally, because there is not a high volume of trading in our stock, any information about SIGA 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.

The following table presents the high and low bid range of our stock for the past eight quarters.

	Bid Range	
2002	High	Low
Second Quarter	$2.63	$0.81
Third Quarter	$1.39	$0.65
Fourth Quarter	$2.15	$0.65
2003	High	Low
First Quarter	$1.49	$1.02
Second Quarter	$1.91	$1.09

Third Quarter.....	$2.13	$1.61
Fourth Quarter.....	$2.60	$1.80

2004	High	Low
First Quarter.....	$2.82	$1.83

We are in various stages of product development and there can be no assurance of successful commercialization.

In general, our research and development programs are at an early stage of development. The strep vaccine program is in Phase I clinical trials. All other programs are in the pre-clinical stage of development. Our biological warfare defense products do not need human clinical trials for approval by the FDA. We will need to perform two animal models and provide safety data for a product to be approved. Our other products will be subject to the approval guidelines under FDA regulatory requirements which include a number of phases of testing in humans.

The FDA has not approved any of our biopharmaceutical product candidates. Any drug candidates developed by us will require significant additional research and development efforts, including extensive pre-clinical and clinical testing and regulatory approval, prior to commercial sale. We cannot be sure our approach to drug discovery will be effective or will result in the development of any drug. We cannot expect that any drugs resulting from our research and development efforts will be commercially available for many years, if at all.

We have limited experience in conducting pre-clinical testing and clinical trials. Even if we receive initially positive pre-clinical or clinical results, such results do not mean that similar results will be obtained in the later stages of drug development, such as additional pre-clinical testing or human clinical trials. All of our potential drug candidates are prone to the risks of failure inherent in pharmaceutical product development, including the possibility that none of our drug candidates will or can:

- be safe, non-toxic and effective;
- otherwise meet applicable regulatory standards;
- receive the necessary regulatory approvals;
- develop into commercially viable drugs;
- be manufactured or produced economically and on a large scale;
- be successfully marketed;
- be reimbursed by government and private insurers; and
- achieve customer acceptance.

In addition, third parties may preclude us from marketing our drugs through enforcement of their proprietary rights, or third parties may succeed in marketing equivalent or superior drug products. Our failure to develop safe, commercially viable drugs would have a material adverse effect on our business, financial condition and results of operations.

Most of our immediately foreseeable future revenues are contingent upon

collaborative and license agreements and we may not achieve sufficient revenues from these agreements to attain profitability.

Until and unless we successfully make a product, our ability to generate revenues will largely depend on our ability to enter into additional collaborative and license agreements with third parties and maintain the agreements we currently have in place. Substantially all of our revenues for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002, respectively, were derived from revenues related to contracts and license agreements. We will receive little or no revenues under our collaborative agreements if our collaborators' research, development or marketing efforts are unsuccessful, or if our agreements are terminated early. Additionally, if we do not enter into new collaborative agreements, we will not receive future revenues from new sources. Our future revenue is substantially dependent on the continuing grant and contract work being performed for the NIH which expires in May 2004 and the U.S. Army which expires at the end of December 2007. These agreements are for specific work to be performed under the agreements and could only be canceled by the other party thereto for non-performance by the other party thereto.

Several factors will affect our future receipt of revenues from collaborative arrangements, including the amount of time and effort expended by our collaborators, the timing of the identification of useful drug targets and the timing of the discovery and development of drug candidates. Under our existing agreements, we may not earn significant milestone payments until our collaborators have advanced products into clinical testing, which may not occur for many years, if at all.

We have material agreements with the following collaborators:

- The Rockefeller University. The term of our agreement with Rockefeller is for the duration of the patents and a number of pending patents. As we do not currently know when any patents pending or future patents will expire, we cannot at this time definitively determine the term of this agreement. The agreement can be terminated earlier if we are in breach of the provisions of the agreement and do not cure the breach in the allowed cure period. We are current in all obligations under the contract.

- Wyeth. Our license agreement expires on the earlier of June 30, 2007, or the last to expire patent that we have sub-licensed to them. Wyeth has the right to terminate the agreement on 90 days written notice. If terminated, all rights granted to Wyeth will revert to us, except for any compound identified by Wyeth prior to the date of termination and subject to the milestones and royalty obligations of the agreement.

- National Institutes of Health. Under our collaborative agreement with the NIH, it is required to conduct and pay for the clinical trials of our strep vaccine product through phase II human trials. The NIH can terminate the agreement on 60 days written notice. If terminated, we receive copies of all data, reports and other information related to the trials. If terminated, we would have to find another source of funds to continue to conduct the trials. We are party to another collaborative agreement with the NIH under which we received a grant for approximately $865,000. The term of this agreement

expires in May 2004. We are paid as the work is performed and the agreement can be cancelled for non-performance. We are current in all our obligations under our agreements.

- Washington University. We have licensed certain technology from Washington under a non-exclusive license agreement. The term of our agreement with Washington is for the duration of the patents and a number of pending patents. As we do not currently know when any patents pending or future patents will expire, we cannot at this time definitively determine the term of this agreement. The agreement cannot be terminated unless we fail to pay our share of the joint patent costs for the technology licensed. We have currently met all our obligations under this agreement.

- Regents of the University of California. We have licensed certain technology from Regents under an exclusive license agreement. We are required to pay minimum royalties under this agreement. This agreement is related to our agreement with Wyeth and expires at the same time as that agreement. It can be cancelled earlier if we default on our obligations or if Wyeth cancels its agreement with SIGA and we are not able to find a replacement for Wyeth. We have currently met all our obligations under this agreement.

- TransTech Pharma, Inc. Under our collaborative agreement with TransTech Pharma, a related party, TransTech Pharma is required to collaborate with us on the discovery, optimization and development of lead compounds to therapeutic agents. We and TransTech Pharma have agreed to share the costs of development and revenues generated from licensing and profits from any commercialized products sales. The agreement will be in effect until terminated by the parties or upon cessation of research or sales of all products developed under the agreement. We are current in all obligations under this agreement.

We may face limitations on our ability to attract suitable acquisition opportunities or to integrate additional acquired businesses and the failure to consummate an acquisition may significantly drain our resources.

As part of our business strategy, we expect to enter into business combinations and acquisitions. Some of these transactions could be material in size and scope. While we will continually be searching for additional acquisition opportunities, we may not be successful in identifying suitable acquisitions. We compete for acquisition candidates with other entities, some of which have greater financial and other resources than we have. Increased competition for acquisition candidates may make fewer acquisition candidates available to us and may cause acquisitions to be made on less attractive terms, such as higher purchase prices. Acquisition costs may increase to levels that are beyond our financial capability or that would adversely affect our results of operations and financial condition.

Our ability to make acquisitions will depend in part on the relative attractiveness of shares of our common stock as consideration for potential acquisition candidates. This attractiveness may depend largely on the relative market price, our ability to register common stock and capital appreciation prospects of our common stock. If the market price of our common stock were to decline materially over a prolonged period of time, our acquisition program

could be materially adversely affected. Failure to make an acquisition will limit our ability to grow, but will not be central to our continued existence. Costs associated with failed acquisitions, may result in significant operating costs that may need to be financed from operations or from additional equity capital.

We may not be able to consummate potential acquisitions or an acquisition may not enhance our business or may decrease rather than increase our earnings.

In the future, we may issue additional securities in connection with one or more acquisitions, which may dilute our existing shareholders. Future acquisitions could also divert substantial management time and result in short term reductions in earnings or special transaction or other charges. In addition, we cannot guarantee that we will be able to successfully integrate the businesses that we may acquire into our existing business. Our shareholders may not have the opportunity to review, vote on or evaluate future acquisitions.

The biopharmaceutical market in which we compete and will compete is highly competitive.

The biopharmaceutical industry is characterized by rapid and significant technological change. Our success will depend on our ability to develop and apply our technologies in the design and development of our product candidates and to establish and maintain a market for our product candidates. There also are many companies, both public and private, including major pharmaceutical and chemical companies, specialized biotechnology firms, universities and other research institutions engaged in developing pharmaceutical and biotechnology products. Many of these companies have substantially greater financial, technical, research and development, and human resources than us. Competitors may develop products or other technologies that are more effective than any that are being developed by us or may obtain FDA approval for products more rapidly than us. If we commence commercial sales of products, we still must compete in the manufacturing and marketing of such products, areas in which we have no experience. Many of these companies also have manufacturing facilities and established marketing capabilities that would enable such companies to market competing products through existing channels of distribution. Two companies with similar profiles are VaxGen, Inc., which is developing vaccines against anthrax, Smallpox and HIV/AIDS; and Avant Immunotherapeutics, Inc., which has vaccine programs for agents of biological warfare.

Because we must obtain regulatory clearance to test and market our products in the United States, we cannot predict whether or when we will be permitted to commercialize our products.

A pharmaceutical product cannot be marketed in the U.S. until it has completed rigorous pre-clinical testing and clinical trials and an extensive regulatory clearance process implemented by the FDA. Pharmaceutical products typically take many years to satisfy regulatory requirements and require the expenditure of substantial resources depending on the type, complexity and novelty of the product.

Before commencing clinical trials in humans, we must submit and receive clearance from the FDA by means of an Investigational New Drug ("IND") application. Institutional review boards and the FDA oversee clinical trials and such trials:

- must be conducted in conformance with the FDA's good laboratory practice regulations;
- must meet requirements for institutional review board oversight;

- must meet requirements for informed consent;
- must meet requirements for good clinical and manufacturing practices;
- are subject to continuing FDA oversight;
- may require large numbers of test subjects; and
- may be suspended by us or the FDA at any time if it is believed that the subjects participating in these trials are being exposed to unacceptable health risks or if the FDA finds deficiencies in the IND application or the conduct of these trials.

Before receiving FDA clearance to market a product, we must demonstrate that the product is safe and effective on the patient population that will be treated. Data we obtain from preclinical and clinical activities are susceptible to varying interpretations that could delay, limit or prevent regulatory clearances. Additionally, we have limited experience in conducting and managing the clinical trials and manufacturing processes necessary to obtain regulatory clearance.

If regulatory clearance of a product is granted, this clearance will be limited only to those states and conditions for which the product is demonstrated through clinical trials to be safe and efficacious. We cannot ensure that any compound developed by us, alone or with others, will prove to be safe and efficacious in clinical trials and will meet all of the applicable regulatory requirements needed to receive marketing clearance.

If our technologies or those of our collaborators are alleged or found to infringe the patents or proprietary rights of others, we may be sued or have to license those rights from others on unfavorable terms.

Our commercial success will depend significantly on our ability to operate without infringing the patents and proprietary rights of third parties. Our technologies, along with our licensors' and our collaborators' technologies, may infringe the patents or proprietary rights of others. If there is an adverse outcome in litigation or an interference to determine priority or other proceeding in a court or patent office, then we, or our collaborators and licensors, could be subjected to significant liabilities, required to license disputed rights from or to other parties and/or required to cease using a technology necessary to carry out research, development and commercialization. At present we are unaware of any or potential infringement claims against our patent portfolio.

The costs to establish the validity of patents, to defend against patent infringement claims of others and to assert infringement claims against others can be expensive and time consuming, even if the outcome is favorable. An outcome of any patent prosecution or litigation that is unfavorable to us or one of our licensors or collaborators may have a material adverse effect on us. We could incur substantial costs if we are required to defend ourselves in patent suits brought by third parties, if we participate in patent suits brought against or initiated by our licensors or collaborators or if we initiate such suits. We may not have sufficient funds or resources in the event of litigation. Additionally, we may not prevail in any such action.

Any conflicts resulting from third-party patent applications and patents could significantly reduce the coverage of the patents owned, optioned by or licensed to us or our collaborators and limit our ability or that of our

collaborators to obtain meaningful patent protection. If patents are issued to third parties that contain competitive or conflicting claims, we, our licensors or our collaborators may be legally prohibited from researching, developing or commercializing of potential products or be required to obtain licenses to these patents or to develop or obtain alternative technology. We, our licensors and/or our collaborators may be legally prohibited from using patented technology, may not be able to obtain any license to the patents and technologies of third parties on acceptable terms, if at all, or may not be able to obtain or develop alternative technologies.

In addition, like many biopharmaceutical companies, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities conducted by us. We and/or these individuals may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations.

Our ability to compete may decrease if we do not adequately protect our intellectual property rights.

Our commercial success will depend in part on our and our collaborators' ability to obtain and maintain patent protection for our proprietary technologies, drug targets and potential products and to effectively preserve our trade secrets. Because of the substantial length of time and expense associated with bringing potential products through the development and regulatory clearance processes to reach the marketplace, the pharmaceutical industry places considerable importance on obtaining patent and trade secret protection. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. No consistent policy

regarding the breadth of claims allowed in biotechnology patents has emerged to date. Accordingly, we cannot predict the type and breadth of claims allowed in these patents.

We have licensed the rights to seven issued U.S. patents and three issued European patents. These patents have varying lives and they are related to the technology licensed from Rockefeller University for the Strep and Gram-positive products. We have two additional patent applications in the U.S. and two applications in Europe relating to this technology. We are joint owner with Washington University of seven issued patents in the U.S. and two in Europe. In addition, there are four co-owned U.S. patent applications. These patents are for the technology used for the gram-negative product opportunities. We are also exclusive owner of one U.S. patent and one PCT application that relates to our DegP product opportunities.

The following are our patent positions as of March 31, 2003.

PATENTS	Number Licensed from Rockefeller Univ.	Number Co-owned with Washington Univ.	Number Owned by SIGA	Years of Expiration Dates of Patents

United States	7	7	1	2013, 2014 (3 patents), 2015 (patents), 2016 (2 patents), 2017, 2019 (2 patents), 2020, 2021
Europe	3	2		2004, 2009, 2010, 2014, 2020
Australia	5	2		2004, 2009, 2014 (2 patents), 2015, 2016, 2019, 2020
Japan	4	2		2004 (2 patents), 2010, 2012, 2014, 2020
Canada	3	1		2004, 2010, 2014, 2019
Hungary	2			2013, 2016
Mexico	1			2016
New Zealand	1			2016

APPLICATIONS			
United States	2	4	1
Europe	2		1
Japan	3		1
Canada	3	1	1
Australia	1		1
China	1		
Finland	1		

We also rely on copyright protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of trade secrets and proprietary information, we require our employees, consultants and some collaborators to execute confidentiality and invention assignment agreements upon commencement of a relationship with us. These agreements may not provide meaningful protection for our trade secrets, confidential information or inventions in the event of unauthorized use or disclosure of such information, and adequate remedies may not exist in the event of such unauthorized use or disclosure.

We may have difficulty managing our growth.

We expect to experience growth in the number of our employees and the scope of our operations. This growth has placed, and may continue to place, a significant strain on our management and operations. Our ability to manage this growth will depend upon our ability to broaden our management team and our ability to attract, hire and retain skilled employees. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems and to hire, train and manage our employees.

We depend on a key employee in a competitive market for skilled personnel.

We are highly dependent on Dr. Dennis Hruby, our Chief Scientific Officer. We currently have an employment agreement which expires on December 31, 2005 with Dr. Hruby who we consider to be a "key employee." The loss of his services prior to the termination of his employment agreement would have a material adverse effect on our business. We do not maintain a key person life insurance policy on the life of any employee.

Our future success also will depend in part on the continued service of our key scientific, software, bioinformatics and management personnel and our ability to identify, hire and retain additional personnel, including, when we have a product for commercialization, customer service, marketing and sales staff. We experience intense competition for qualified personnel. We may not be able to continue to attract and retain personnel necessary to develop our business.

Our activities involve hazardous materials and may subject us to environmental regulatory liabilities.

Our biopharmaceutical research and development involves the controlled use of hazardous and radioactive materials and biological waste. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and certain waste products. Although we believe that our safety procedures for handling and disposing of these materials comply with legally prescribed standards, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of an accident, we could be held liable for damages, and this liability could exceed our resources. The research and development activities of our company do not produce any unusual hazardous products. We do use small amounts of 32P, 35S and 3H, which are stored, used and disposed of in accordance with Nuclear Regulatory Commission ("NRC") regulations. We maintain liability insurance in the amount of approximately $5,000,000 and we believe this should be sufficient to cover any contingent losses.

We believe that we are in compliance in all material respects with applicable environmental laws and regulations and currently do not expect to make material additional capital expenditures for environmental control facilities in the near term. However, we may have to incur significant costs to comply with current or future environmental laws and regulations.

Our potential products may not be acceptable in the market or eligible for third party reimbursement resulting in a negative impact on our future financial results.

Any products successfully developed by us or our collaborative partners may not achieve market acceptance. The antibiotic products which we are attempting to develop will compete with a number of well-established traditional antibiotic drugs manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any of our products will depend on a number of factors, including:

- the establishment and demonstration in the medical community of the clinical efficacy and safety of such products,
- the potential advantage of such products over existing treatment methods, and

- reimbursement policies of government and third-party payors.

Physicians, patients or the medical community, in general, may not accept or utilize any products that we or our collaborative partners may develop. Our ability to receive revenues and income with respect to drugs, if any, developed through the use of our technology will depend, in part, upon the extent to which reimbursement for the cost of such drugs will be available from third-party payors, such as government health administration authorities, private healthcare insurers, health maintenance organizations, pharmacy benefits management companies and other organizations. Third-party payors are increasingly disputing the prices charged for pharmaceutical products. If third-party reimbursement was not available or sufficient to allow profitable price levels to be maintained for drugs developed by us or our collaborative partners, it could adversely affect our business.

If our products harm people, we may experience product liability claims that may not be covered by insurance.

We face an inherent business risk of exposure to potential product liability claims in the event that drugs we develop are alleged to cause adverse effects on patients. Such risk exists for products being tested in human clinical trials, as well as products that receive regulatory approval for commercial sale. We may seek to obtain product liability insurance with respect to drugs we and/or or our collaborative partners develop. However, we may not be able to obtain such insurance. Even if such insurance is obtainable, it may not be available at a reasonable cost or in a sufficient amount to protect us against liability.

We may be required to perform additional clinical trials or change the labeling of our products if we or others identify side effects after our products are on the market, which could harm sales of the affected products.

If we, or others, identify side effects after any of our products, if any, after they are on the market, or if manufacturing problems occur:

- regulatory approval may be withdrawn;
- reformulation of our products, additional clinical trials, changes in labeling of our products may be required;
- changes to or re-approvals of our manufacturing facilities may be required;
- sales of the affected products may drop significantly;
- our reputation in the marketplace may suffer; and
- lawsuits, including class action suits, may be brought against us.

Any of the above occurrences could harm or prevent sales of the affected products or could increase the costs and expenses of commercializing and marketing these products.

The manufacture of genetically engineered commensals is a time-consuming and complex process which may delay or prevent commercialization of our products, or may prevent our ability to produce an adequate volume for the successful commercialization of our products.

Although our management believes that we have the ability to acquire

or produce quantities of genetically engineered commensals sufficient to support our present needs for research and our projected needs for our initial clinical development programs, management believes that improvements in our manufacturing technology will be required to enable us to meet the volume and cost requirements needed for certain commercial applications of commensal products. Products based on commensals have never been manufactured on a commercial scale. The manufacture of all of our products will be subject to current GMP requirements prescribed by the FDA or other standards prescribed by the appropriate regulatory agency in the country of use. There can be no assurance that we will be able to manufacture products, or have products manufactured for us, in a timely fashion at acceptable quality and prices, that we or third party manufacturers can comply with GMP, or that we or third party manufacturers will be able to manufacture an adequate supply of product.

Healthcare reform and controls on healthcare spending may limit the price we charge for any products and the amounts thereof that we can sell.

The U.S. federal government and private insurers have considered ways to change, and have changed, the manner in which healthcare services are provided in the U.S. Potential approaches and changes in recent years include controls on healthcare spending and the creation of large purchasing groups. In the future, the U.S. government may institute further controls and limits on Medicare and Medicaid spending. These controls and limits might affect the payments we could collect from sales of any products. Uncertainties regarding future healthcare reform and private market practices could adversely affect our ability to sell any products profitably in the U.S. At present, we do not foresee any changes in FDA regulatory policies that would adversely affect our development programs.

The 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 10,000,000 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 possible acquisitions and other corporate purposes, could 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 in control.

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

Our Directors, executive officers and principal stockholders beneficially own a significant percentage of our common stock and preferred 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 significantly influence the outcome of corporate actions requiring shareholder approval. Additionally, this concentration of ownership may have the effect of delaying or preventing a change in control of SIGA. At March 31, 2004, Directors, Officers and principal stockholders beneficially owned approximately 50.2% of our stock.

Item 3. Controls and Procedures

As of the end of the fiscal quarter ended March 31, 2004, the Company's management, including the Acting Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended). Based on that evaluation, the Acting Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective for recording, processing, summarizing and reporting information that the Company is required to disclose in reports filed under the Securities and Exchange Act of 1934, as amended.

There have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act, as amended) or in other factors during the fiscal quarter ended March 31, 2004, that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II
Other information

Item 1. Legal Proceedings - SIGA is not a party, nor is its property the subject of, any legal proceedings other than routine litigation incidental to its business.

Item 2. Changes in Securities and Use of Proceeds - None

Item 3. Defaults upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

31. Certification of Acting Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32. Certification of Acting Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

(1) On January 13, 2004, SIGA filed a Current Report on Form 8-K, dated January 8, 2004, pursuant to which SIGA reported under Item 5 (i) the completion by MacAndrews & Forbes Holdings Inc. and its affiliate, TransTech Pharma Inc., of the final portion of their $10 million investment in SIGA, and (ii) the issuance of a press release related to such investment, which was filed as an exhibit thereto.

(2) On January 30, 2004, SIGA filed a Current Report on Form 8-K, dated January 30, 2004, pursuant to which SIGA provided under Item 7 the following financial information (i) the unaudited pro forma statement of operations for SIGA and Plexus Vaccines, Inc. ("Plexus") for the nine months ended September 30, 2003, and (ii) the unaudited pro forma statement of operations for SIGA and Plexus for the year ended December 31, 2002.

(3) On March 22, 2004, SIGA filed a Current Report on Form 8-K, dated March 22, 2004, pursuant to which SIGA reported under Item 9 that SIGA issued a press release announcing a successful small pox vaccine trial and a possible sale of certain non-core vaccine assets.

(4) On April 21, 2004, SIGA filed a Current Report on Form 8-K, dated April 21, 2004, pursuant to which SIGA provided under Item 7 the unaudited pro forma statement of operations for SIGA and Plexus for the year ended December 31, 2003.

SIGNATURES

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

SIGA Technologies, Inc.
(Registrant)

Date: May 14, 2004

By: /s/Thomas N. Konatich

Thomas N. Konatich
Chief Financial Officer
(Principal Accounting Officer and Financial Officer and Vice President, Finance)