SIGA TECHNOLOGIES INC
Form 10-Q
August 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2016
Or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 0-23047
SIGA Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-3864870
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification. No.)
660 Madison Avenue, Suite 1700	10065
New York, NY	(zip code)
(Address of principal executive offices)	

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (check one): Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨.

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

As of July 30, 2016 the registrant had outstanding 54,284,296 shares of common stock, par value $.0001, per share

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PART I - FINANCIAL INFORMATION

Item 1 - Condensed Consolidated Financial Statements

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$78,022,356	$112,711,028
Accounts receivable	34,488,734	3,676,730
Inventory	28,931,893	12,447,088
Prepaid expenses and other current assets	2,124,292	623,983
Total current assets	143,567,275	129,458,829
Property, plant and equipment, net	372,779	449,825
Deferred costs	56,188,604	52,936,428
Goodwill	898,334	898,334
Other assets	641,564	1,989,520
Total assets	$201,668,556	$185,732,936
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$9,916,911	$3,944,476
Accrued expenses and other current liabilities	3,310,723	3,388,608
PharmAthene Liability	203,654,855	—
Total current liabilities	216,882,489	7,333,084
Deferred revenue	288,293,407	255,258,371
Deferred income tax liability, net	277,088	265,643
Other liabilities	290,104	332,218
Liabilities subject to compromise	—	206,972,170
Total liabilities	505,743,088	470,161,486
Stockholders' equity (Deficit)		
Common stock ($.0001 par value, 600,000,000 shares authorized, 54,284,296 and 54,114,296 issued and outstanding at June 30, 2016, and December 31, 2015, respectively)	5,411	5,411
Additional paid-in capital	177,376,807	177,008,371
Accumulated deficit	(481,456,750)	(461,442,332)
Total stockholders' deficit	(304,074,532)	(284,428,550)
Total liabilities and stockholders' deficit	$201,668,556	$185,732,936

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues				
Research and development	$1,901,314	$1,467,460	$3,171,047	$2,659,551
Operating expenses				
Selling, general and administrative	3,738,709	2,592,285	6,394,940	5,670,272
Research and development	2,948,391	2,959,070	5,484,403	5,766,492
Patent preparation fees	239,690	235,334	459,405	568,438
Interest on PharmAthene liability	4,259,451	13,441	7,176,637	26,735
Total operating expenses	11,186,241	5,800,130	19,515,385	12,031,937
Operating loss	(9,284,927)	(4,332,670)	(16,344,338)	(9,372,386)
Interest expense	(10,214)	(13,315)	(10,214)	(266,726)
Other income, net	58,489	10,877	69,800	16,341
Reorganization items, net	(327,729)	(2,149,981)	(3,716,902)	(3,931,806)
Loss before income taxes	(9,564,381)	(6,485,089)	(20,001,654)	(13,554,577)
Provision for income taxes	(1,470)	(88,348)	(12,764)	(172,179)
Net and comprehensive loss	$(9,565,851)	$(6,573,437)	$(20,014,418)	$(13,726,756)
loss per share: basic and diluted	$(0.18)	$(0.12)	$(0.37)	$(0.26)
Weighted average shares outstanding: basic and diluted	54,216,604	53,589,268	54,165,450	53,547,017

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

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SIGA TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net Loss	$(20,014,418)	$(13,726,756)
Adjustments to reconcile net loss to net cash (used in) provided by in operating activities:		
Depreciation and other amortization	88,044	146,854
Stock-based compensation	368,436	873,023
Write-off of leasehold improvements	—	238,501
Non-cash interest expense	—	10,052
Changes in assets and liabilities:		
Accounts receivable	(30,812,004)	(277,582)
Inventory	(16,484,805)	10,273,989
Deferred costs	(3,252,176)	(13,098,787)
Prepaid expenses and other current assets	(1,500,309)	(299,881)
Other assets	1,347,956	—
Deferred income taxes, net	11,445	9,627
Accounts payable, accrued expenses and other current liabilities	5,894,550	2,553,407
PharmAthene liability	203,654,855	—
Liabilities subject to compromise	(206,972,170)	(206,396,829)
Deferred revenue	33,035,036	233,658,167
Other liabilities	(42,114)	(33,764)
Net cash (used in) provided by operating activities	(34,677,674)	13,930,021
Cash flows from investing activities:		
Capital expenditures	(10,998)	—
Restricted cash	—	4,000,000
Net cash (used in) provided by investing activities	(10,998)	4,000,000
Cash flows from financing activities:		
Net proceeds from exercise of warrants and options	—	12,200
Repayment of long-term debt	—	(2,000,000)
Net cash (used in) provided by financing activities	—	(1,987,800)
Net increase (decrease) in cash and cash equivalents	(34,688,672)	15,942,221
Cash and cash equivalents at beginning of period	112,711,028	99,713,929
Cash and cash equivalents at end of period	$78,022,356	$115,656,150

The accompanying notes are an integral part of these financial statements

SIGA TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Condensed Consolidated Financial Statements

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

Our lead product is TPOXX™, also known as tecovirimat or ST-246. In the Notes to the financial statements, our lead product is referred to as TPOXX™.

Background of Chapter 11 Case

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

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

Plan of Reorganization

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

The Plan provides for, among other things:

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Prepetition unsecured claims (other than PharmAthene's claim) will be paid in cash in full. As of June 30, 2016, the Company has paid $785,000 of prepetition unsecured claims. Remaining unpaid prepetition unsecured claims, other than those related to the PharmAthene claim, are $19,000 (no payments were made in July).

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

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

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The Company can treat PharmAthene's claim under the Plan by one of three options: option (i) payment in full in cash of the Company's obligation under the Delaware Court of Chancery Final Order and Judgment, which is estimated to be approximately $204 million as of June 30, 2016, by a date certain as specified in the Plan (currently October 19, 2016); or option (ii) delivery to PharmAthene of 100% of newly-issued stock of the Company, with all existing shares of the Company's common stock being cancelled with no distribution to existing stockholders on account thereof; or option (iii) such other treatment as is mutually agreed upon by the Company and PharmAthene. On July 8, 2016, pursuant to the Plan, the Company notified PharmAthene (the "Notification") of its intention to satisfy PharmAthene's claim by option (i), payment in full in cash. As part of the Notification, the Company paid PharmAthene $20 million, which is to be applied to payments to be made under option (i) set forth above, and otherwise nonrefundable. As a consequence of the Notification and the payment of $20 million to PharmAthene, the Company has until October 19, 2016 ("Final Treatment Date") to treat the PharmAthene Claim under the Plan. Pursuant to the terms of the Plan, the Notification does not preclude treatment of the PharmAthene claim by option (ii) or option (iii) set forth above. Additionally, on July 20, 2016, a joint motion was filed by the Company and PharmAthene with the Bankruptcy Court in which the Company and PharmAthene jointly propose to further extend the Final Treatment Date to November 30, 2016, provided that the Company makes a $100 million payment to PharmAthene by October 19, 2016. The $100 million payment would be applied to payments to be made under option (i), and otherwise non-refundable. A Bankruptcy Court hearing for this motion is scheduled for August 15, 2016.

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

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

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

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

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

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

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

- the Company’s Board of Directors would be reconstituted, with a majority of directors appointed by PharmAthene.

Liabilities Subject to Compromise

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

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

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

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

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

PharmAthene Litigation

On August 8, 2014, the Delaware Court of Chancery issued its Remand Opinion and related order in the litigation initiated against the Company in 2006 by PharmAthene. In the Remand Opinion, the Court of Chancery determined, among other things, that PharmAthene is entitled to a lump sum damages award for its lost profits related to TPOXX™, with interest and fees, based on United States government purchases of the Company's smallpox drug allegedly anticipated as of December 2006. On January 15, 2015, the Delaware Court of Chancery entered its Final Order and Judgment awarding PharmAthene approximately $195 million, including pre-judgment interest up to January 15, 2015 (the “Outstanding Judgment”). On January 16, 2015, the Company filed a notice of appeal of the Outstanding Judgment with the Delaware Supreme Court. On October 7, 2015, the Delaware Supreme Court heard oral argument, en banc. On December 23, 2015 the Delaware Supreme Court affirmed the Outstanding Judgment (the “Delaware Supreme Court Affirmation”). As of June 30, 2016, the accrued obligation under the Delaware Court of Chancery Final Order and Judgment, including post-judgment and Plan-specified interest, is estimated to be approximately $204 million. The Outstanding Judgment award will be satisfied in accordance with the Plan as described above.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Company’s ability to continue as a going concern is impacted by the Delaware Supreme Court Affirmation, as well as by the uncertainty attendant to the exact manner in which PharmAthene's claim will be treated under the Plan. As of June 30, 2016, the accrued obligation under the Delaware Court of Chancery Final Order and Judgment, including post-judgment and Plan-specified interest, is estimated to be approximately $204 million. In addition, as of June 30, 2016, the Company has a net capital deficiency of $304 million. These factors raise substantial doubt about the Company’s ability to continue as a going concern. As such, the realization of assets and the satisfaction of liabilities are subject to uncertainties. The accompanying financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

Other Matters

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

On September 16, 2014, the Company received a letter from the NASDAQ Stock Market LLC asserting that, based on the Company’s chapter 11 filing, the Company no longer met the continuing listing requirements necessary to maintain

its listing on the NASDAQ Stock Market and would be promptly delisted. On March 18, 2015, after the expiration of an extension of time granted pursuant to a Company appeal, the Company received a letter from the NASDAQ hearings panel stating that the Company's securities would be delisted from the NASDAQ Stock Market. On March 20, 2015, the Company's common shares were suspended from trading on the NASDAQ Global Market at the opening of business and the Company's shares began trading on the OTC Markets under the "SIGAQ" symbol. Following the Effective Date of the Plan, on April 18, 2016, the trading of the Company's shares on the OTC Markets moved from the "SIGAQ" symbol to the "SIGA" symbol.

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2. Reorganization Items, net:

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

	Three months ended		Six Months Ended	
	2016	2015	2016	2015
Legal fees	$273,436	$1,628,603	$1,951,381	$2,830,395
Professional fees	34,293	505,243	1,732,521	1,069,739
Trustee fees	20,000	13,000	33,000	26,000
Other	—	3,135	—	5,672
Totals	327,729	2,149,981	3,716,902	3,931,806

Subsequent to the Effective Date of the Plan, expenses directly attributable to the implementation of the Plan are reported in selling, general and administrative. During the three and six months ended June 30, 2016, through the Effective Date of the Plan, the Company paid approximately $809,000 and $2.3 million, respectively, for reorganization items.

3. Procurement Contract and Research Agreements

Procurement Contract

On May 13, 2011, the Company signed a contract with the U.S. Biomedical Advanced Research and Development Authority ("BARDA") pursuant to which SIGA agreed to deliver two million courses of TPOXX™ to the U.S. Strategic National Stockpile (“Strategic Stockpile”). The contract with BARDA (as modified, the "BARDA Contract") is worth approximately $470 million, including $409.8 million for manufacture and delivery of 1.7 million courses of TPOXX™ and $60 million of potential reimbursements related to development and supportive activities (the “Base Contract”).

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

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

- 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. On June 29, 2016, the Company invoiced BARDA $32.6 million in connection with the BARDA Contract Modification for courses previously delivered to the Strategic Stockpile. The Company received payment in July 2016.
- The requirements for the $20.5 million milestone changed. For payment, this milestone now requires 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. On August 2, 2016, the Company invoiced BARDA $20.5 million for meeting the milestone.

As of June 30, 2016, the Company has received $249.2 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™, and $187.7 million of payments for physical deliveries of TPOXX™ to the Strategic Stockpile beginning in 2013.

As of June 30, 2016, the Company is eligible to receive an additional $160.6 million under the Base Contract for the manufacture, delivery and purchase by BARDA of courses of TPOXX™. Included in this amount are: $99.2 million of payments related to physical deliveries of TPOXX™ to the Strategic Stockpile; a $20.5 million milestone payment for documentation indicating that

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data covering the first 100 subjects enrolled in the expanded human clinical safety trial 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 a $41.0 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 $41.0 million hold back payment would be triggered by FDA approval of TPOXX™, as long as the Company does not have a continuing product replacement obligation to BARDA. In July 2016, the Company received $32.6 million of payments related to product deliveries previously made to the Strategic Stockpile (see paragraph above regarding the BARDA Modification). Separately, the Company invoiced BARDA $21.3 million in July 2016 for the product delivery of 126,000 courses of TPOXX™ in July 2016. On August 2, 2016, the Company invoiced BARDA $20.5 million for meeting the milestone described above.

With regard to future product deliveries, between August 2016 and first quarter 2017, the Company expects to deliver and invoice for approximately 269,000 courses of TPOXX™ in order to receive the remaining payments tied to the physical delivery of TPOXX™ to the Strategic Stockpile. In total, the Company expects to deliver approximately 845,000 courses of TPOXX™ between August, 2016 and late 2017 in order to fulfill the delivery requirements of the BARDA Contract. Courses to be delivered are expected to be at a dosage of 600 mg administered twice per day (1,200 mg per day), and 269,000 courses are expected to be invoiced and 576,000 courses are expected to be at no additional cost to BARDA. Most of the “no additional cost to BARDA” courses are attributable to a change in TPOXX™ dosage (see paragraph below).

Starting in 2015, product deliveries of TPOXX™ have been at a provisional dosage of 600 mg administered twice per day (1,200 mg per day). This is a change from the provisional dosage that was in effect when product deliveries were made in 2013 and 2014 (600 mg per day). In 2013 and 2014, the provisional dosage of courses delivered to the Strategic Stockpile was 600 mg administered once a day. The change in the provisional dosage is based on FDA guidance received by the Company in 2014, subsequent to the delivery of 1.3 million courses of TPOXX™. Based on the current provisional dosage of 600 mg administered twice per day (1,200 mg per day), the Company expects to supplement previously delivered courses of TPOXX™, at no additional cost to BARDA, with additional dosages so that all of the courses previously delivered to BARDA will be at the new provisional dosage. The Company and BARDA agreed to an amendment (the “BARDA Amendment”) of the BARDA Contract to reflect the foregoing, which modification was approved by the Bankruptcy Court in April 2015. In February 2016, the FDA confirmed (through dose concurrence) its earlier dosage guidance of 600 mg administered twice per day (1,200 mg per day).

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

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.

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As of June 30, 2016 and December 31, 2015, deferred direct costs under the BARDA Contract of approximately $56.2 million and $52.5 million, respectively, are included in deferred costs on the consolidated balance sheets. As of June 30, 2016, the Company recorded $288.3 million of deferred revenue. Deferred revenue has been recorded for the delivery of courses of TPOXX™ to the Strategic Stockpile and certain supportive services provided as part of the BARDA Contract. For the three and six months ended June 30, 2016, revenue from reimbursed research and development was $1.2 million and $2.1 million, respectively.

Research Agreements

The Company obtains funding from the contracts and grants it obtains from various agencies of the U.S. Government to support its research and development activities. Currently, the Company has