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 Quarter Ended September 30, 2006

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)

A Delaware Corporation IRS Employer No. 13-3864870

420 Lexington Avenue, Suite 408, New York, NY 10170
Telephone Number (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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer |_| Accelerated Filer |_| Non-Accelerated Filer |X|.

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 October 31, 2006 the registrant had 31,765,621 shares of common stock outstanding.

SIGA Technologies, Inc.

Form 10-Q

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PART I - FINANCIAL INFORMATION
Item 1 - Financial Statements

SIGA TECHNOLOGIES, INC.

BALANCE SHEETS

	Unaudited September 30, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,649,684	$ 1,772,489
Accounts receivable	112,522	883,054
Prepaid expenses	131,937	160,144
Total current assets	2,894,143	2,815,687
Property, plant and equipment, net	1,498,667	1,224,147
Goodwill	898,334	898,334
Intangible assets, net	191,471	932,735
Other assets	246,201	234,126
Total assets	$ 5,728,816	$ 6,105,029
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 708,785	$ 1,251,854
Accrued expenses and other	387,823	452,082
Deferred revenue	434,466	347,319
Common stock rights	--	73,400
Notes payable	3,107,520	107,520
Total current liabilities	4,638,594	2,232,175
Non-current portion of notes payable	43,784	106,705
Common stock warrants	969,095	535,119
Total liabilities	5,651,473	2,873,999
Commitments and contingencies	--	--
Stockholders' equity		
Series A convertible preferred stock ($ 0001 par value, 10,000,000 shares authorized, 68,038 issued and outstanding at September 30, 2006 and December 31, 2005)	58,672	58,672
Common stock ($.0001 par value, 50,000,000 shares authorized, 28,070,148 and 26,500,648 issued and outstanding at September 30, 2006 and December 31, 2005, respectively)	2,807	2,650
Additional paid-in capital	52,132,184	49,638,619
Accumulated deficit	(52,116,320)	(46,468,911)
Total stockholders' equity	77,343	3,231,030
Total liabilities and stockholders' equity	$ 5,728,816	$ 6,105,029

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

SIGA TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues				
Research and development	$ 2,035,668	$ 2,910,065	$ 4,888,987	$ 6,232,625
Operating expenses				
Selling, general and administrative (include $91,078 and $274,926 of non-cash share based compensation for the three and nine months ended September 30, 2006, respectively)	802,391	415,275	3,237,002	2,071,223
Research and development (include $12,205 and $65,355 of non-cash share based compensation for the three and nine months ended September 30, 2006, respectively)	2,156,473	1,764,980	6,245,640	5,899,371
Patent preparation fees	36,304	8,031	258,751	273,921
Total operating expenses	2,995,168	2,188,286	9,741,393	8,244,515
Operating income (loss)	(959,500)	721,779	(4,852,406)	(2,011,890)
Decrease (increase) in fair market value of common stock rights and common stock warrants	350,790	--	(721,062)	
Other income (expense), net	(48,088)	1,982	(73,941)	(2,221)
Net income (loss)	$ (656,798)	$ 723,761	$ (5,647,409)	$ (2,014,111)
Weighted average shares outstanding: basic and diluted	27,656,368	24,500,648	27,219,221	24,500,648
Net income (loss) per share: basic and diluted	$ (0.02)	$ 0.03	$ (0.21)	$ (0.08)

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

SIGA TECHNOLOGIES, INC.

STATEMENT OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net loss	$(5,647,409)	$(2,014,111)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	530,855	111,294
Amortization of intangible assets	741,264	907,213
Increase in fair market value of common stock rights and warrants	721,062	--
Stock based compensation	340,281	11,700
Non-cash consulting expense	156,470	--
Loss on impairment of investments	--	15,000
Loss on write-off of prepaid investments	--	91,083
Changes in assets and liabilities:		
Accounts receivable	770,532	(411,813)
Prepaid expenses	28,207	10,330
Other assets	(12,075)	(67,401)
Accrued interest payable	97,822	--
Deferred revenue	87,147	--
Accounts payable and accrued expenses	(687,432)	(66,430)
Net cash used in operating activities	(2,873,276)	(1,413,135)
Cash flows from investing activities:		
Capital expenditures	(805,375)	(655,053)
Net cash used in investing activities	(805,375)	(655,053)
Cash flows from financing activities:		
Proceeds from note payable	3,000,000	276,435
Net proceeds from from exercise of common stock rights	1,534,500	--
Net proceeds from from exercise of warrants to purchase common stock	101,985	--
Repayment of note payable	(80,639)	(35,329)
Net cash provided by financing activities	4,555,846	241,106
Net increase (decrease) in cash and cash equivalents	877,195	(1,827,082)
Cash and cash equivalents at beginning of period	1,772,489	2,020,938
Cash and cash equivalents at end of period	$ 2,649,684	$ 193,856

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

SIGA TECHNOLOGIES, INC.
Notes to the September 30, 2006 Financial Statements (Unaudited)

1. Basis of Presentation

SIGA Technologies, Inc. ("SIGA" or the "Company") is a bio-defense company engaged in the discovery, development and commercialization of products for use in defense against biological warfare agents such as Smallpox and Arenaviruses. The Company is also engaged in the discovery and development of other novel anti-infectives, vaccines, and antibiotics for the prevention and treatment of serious infectious diseases. The Company's anti-viral programs are designed to prevent or limit the replication of viral pathogens. SIGA's anti-infectives programs target the increasingly serious problem of drug resistant bacteria and emerging pathogens.

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the Securities and Exchange Commission (the "SEC") for quarterly reports on Forms 10-Q and should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2005, included in the 2005 Form 10-K. All terms used but not defined elsewhere herein have the meaning ascribed to them in the Company's 2005 annual report and Form 10-K. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation of the results of the interim periods presented have been included. The results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the results expected for the full year.

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. 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 will continue to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient future financing on commercially reasonable terms or that the Company will be able to secure funding from anticipated government contracts and grants. Management believes that existing cash balances combined with anticipated cash flows will be sufficient to support its operations beyond the next twelve months, and will fund the Company's business objectives during that period. If the Company is unable to continue to raise adequate capital or achieve profitability, its future operations might need to be scaled back or discontinued.

On October 19, 2006, the Company entered into a Securities Purchase Agreement for the issuance and sale of 2,000,000 shares of the Company's common stock at $4.54 per share and warrants to purchase 1,000,000 shares of the Company's common stock. The warrants are exercisable at 110% of the closing price on the closing date of the transaction at any time and from time to time through and including the seventh anniversary of the closing date. With respect to the transaction, the Company also entered into a Finders Agreement. The finders' fee under the agreement includes cash compensation of 3% of the amount financed and warrants to acquire 136,200 shares of the Company's common stock at terms equal to the investors' warrants. Also in connection with the transaction, pursuant to the Company's existing Exclusive Finders Agreement, the Company paid finders fee consisting of cash consideration of 4% of the amount financed and warrants acquiring 136,200 shares of the Company's common stock at terms equal to the investors' warrants. The Company received net proceeds of $8.4 million from the transaction.

In October, 2006, the Company also received net proceeds of $3.0 million from exercises of warrants and options to purchase shares of the Company's common stock.

On October 23, 2006, the Company repaid in full $3,000,000 of outstanding notes payable and the interest accrued thereon.

2. Significant Accounting Policies

Share-based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense

for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan ("employee stock purchases") based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning on January 1, 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's Financial Statements as of and for the three and nine months ended September 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Share-based compensation related to stock options expense recognized under SFAS 123(R) for the three and nine months ended September 30, 2006 was $103,583 and $340,281, respectively. No share-based compensation expense related to employee stock options was recognized during the three and nine months ended September 30, 2005.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the grant-date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statements of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no share-based compensation expense related to stock options had been recognized in the Company's Statements of Operations when the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant-date.

Share-based compensation expense recognized during the current period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is based on historical rates. Share-based compensation expense recognized in the Company's Statements of Operations for the nine months ended September 30, 2006 includes (i) compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS 123 and (ii) compensation expense for the share-based payment awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company utilizes the Black-Scholes option pricing model for the valuation of share-based awards.

Share-based compensation expense reduced the Company's results of operations for the three and nine months ended September 30, 2006 by $103,583 and $340,281, respectively, or $0.00 and 0.01 per share, respectively, and had no impact on the Company's cash flow.

The following table illustrates the effect on net loss and net loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosures" ("SFAS 148") during the respective periods in the prior year.

	Three months ended September 30, 2005	Nine months ended September 30, 2005
Net gain (loss) available to common stockholders, as reported	$ 723,761	$ (2,014,111)
Add: Stock-based employee compensation expense included in reported net income	--	11,700
Deduct: Total stock based compensation expense determined under the fair value based method	(172,201)	(624,243)
Net gain (loss) available to common stockholders, pro forma	$ 551,560	$ (2,626,654)
Gain (loss) per common share - basic and diluted:		
As reported	$ 0.03	$ (0.08)
Pro forma	$ 0.02	$ (0.11)

Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States of America. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. These estimates include the realization of deferred tax assets, useful lives and impairment of tangible and intangible assets, and the value of options and warrants granted by the Company. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from these estimates.

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 income is accrued as earned.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the various asset classes. Estimated lives are 5 years for laboratory equipment; 3 years for computer equipment; 7 years for furniture and fixtures; and the shorter of the estimated lives or the life of the lease for leasehold improvements. Maintenance, repairs and minor replacements are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the Balance Sheet and any gain or loss is reflected in the Statement of Operations.

Revenue Recognition

The Company recognizes revenue from contract research and development and research payments in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition, ("SAB 104"). In accordance with SAB 104, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectibility is reasonably assured, contractual obligations have been satisfied and title and risk of loss have been transferred to the customer. The Company recognizes revenue from non-refundable up-front payments, not tied to achieving a specific performance milestone, over the period which the Company is obligated to perform services or based on the percentage of costs incurred to date, estimated costs to complete and total expected contract revenue. Payments for development activities are recognized as revenue as earned, over the period of effort. Substantive at-risk milestone payments, which are based on achieving a specific performance milestone, are recognized as revenue when the milestone is achieved and the related payment is due, providing there is no future service obligation associated with that milestone. 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.

For the three month periods ended September 30, 2006 and 2005, revenues from National Institutes of Health ("NIH") Small Business Innovation Research ("SBIR") grants approximated 51% and 92%, respectively, of total revenues recognized by the Company. For the nine month periods ended September 30, 2006 and 2005, revenues from NIH SBIR grants approximated 46% and 93%, respectively, of total revenues recognized by the Company.

Accounts Receivable

Accounts receivable are recorded net of provisions for doubtful accounts. An allowance for doubtful accounts is based on specific analysis of the receivables. At September 30, 2006 and December 31, 2005 the Company had no allowance for doubtful accounts.

Research and development

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

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired.

The Company performs an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. Goodwill impairment is determined using a two-step approach in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value.

Intangible Assets

Acquisition-related intangible assets include acquired technology, customer contracts, grants and covenants not to compete, and are amortized on a straight line basis over periods ranging from 2 to 4 years.

In accordance with Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the Company performs a review of its identified intangible assets to determine if facts and circumstances exist which indicate that the useful life is shorter than originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances do exist, the Company assesses the recoverability of identified intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Changes in events or circumstances that may affect long-lived assets include, but are not limited to, cancellations or terminations of research contracts or pending government 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 the entire deferred tax asset will not be realized.

Net income (loss) per common 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.

The Company incurred losses for the three and nine months ended September 30, 2006 and for the nine months ended September 30, 2005, and as a result, certain equity instruments are excluded from the calculation of diluted loss per share for these periods. At September 30, 2006 and 2005, 68,038 shares 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 September 30, 2006 and 2005, outstanding options to purchase 8,482,227 and 9,788,228 shares, respectively, of the Company's common stock with exercise prices ranging from $0.94 to $5.50 have been excluded from the computation of diluted loss per share as they are anti-dilutive. At September 30, 2006 and 2005, outstanding warrants to purchase 9,985,896 and 8,419,594 shares, respectively, of the Company's common stock, with exercise prices ranging from $1.18 to $3.60 have been excluded from the computation of diluted loss per share as they are anti-dilutive.

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 Federal Deposit Insurance Corporation 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.

Segment information

The Company is managed and operated as one business. The entire business is managed by a single management team that reports to the Acting Chief Executive Officer. The Company does not operate separate lines of business or separate business entities with respect to any of its product candidates. Accordingly, the Company does not prepare discrete financial information with respect to separate product areas or by location and only has one reportable segment as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

Recent accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires an entity to recognize the impact of a tax position in its financial statements if that position is more likely than not to be sustained on audit based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of fiscal year 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. Early application of FIN 48 is encouraged. The Company is evaluating the timing of its adoption of FIN 48 and the potential effects of implementing this Interpretation on its financial condition and results of operations.

3. Research Agreements

On August 30, 2006, the Company received a three-year, $6.0 million award from the NIH to support the development of its antiviral drugs for the Lassa fever virus. Revenues will be recognized as services are performed.

On August 1, 2006, SIGA received a three-year, $4.8 million SBIR Phase II continuation grant from the NIH to support the Company's development of its smallpox drug candidate, SIGA-246. Revenues will be recognized as services are performed.

On September 26, 2006, the Company entered into a three-year, $16.5 million contract with the National Institute of Allergy and Infectious Diseases of the NIH, to further advance the development of SIGA-246, the Company's smallpox drug candidate. Revenues will be recognized as services are performed.

4. Intangible Assets

Amortization expense recorded for the nine months ended September 30, 2006 and 2005 was as follows:

	Nine Months Ended September 30, 2006	2005
Amortization of acquired grants	$ 654,228	$ 736,010
Amortization of customer contract and grants	25,070	25,070
Amortization of covenants not to compete	--	84,167
Amortization of acquired technology	61,966	61,966
	$ 741,264	$ 907,213

5. Stockholders' Equity

At September 30, 2006, 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 adjustments) 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 October, 2006, holders of the Company's Series A Preferred Stock converted their shares into shares of the Company's common stock.

In November 2005, the Company sold 2,000,000 shares of the Company's common stock at $1.00 per share, warrants to purchase 1,000,000 shares of the Company's common stock with an initial exercise price of $1.18 per share, and rights to purchase 2,000,000 additional shares of the Company's common stock for an initial price of $1.10 per share. The warrants are exercisable at any time and from time to time through and including the seventh anniversary of the sale closing date and the rights are exercisable for a period of 90 trading days following the effectiveness of a registration statement. In May, July and August 2006, holders of 1,500,000 rights to acquire shares of the Company's common stock exercised their rights. Net proceeds from the exercise of the rights were $1,534,500. On August 25, 2006, 500,000 rights to acquire common stock expired unexercised.

The Company accounted for the transaction under the provisions of EITF 00-19 which requires that free standing derivative financial instruments that require net cash settlement be classified as assets or liabilities at the time of the transaction, and recorded at their fair value. EITF 00-19 also requires that any changes in the fair value of the derivative instruments be reported in earnings as long as the derivative contracts are classified as assets or liabilities. At September 30, 2006, the fair value of the outstanding warrants to acquire common stock was $969,095. The Company applied the Black-Scholes model to calculate the fair values of the derivative instruments using the contracted term of the instruments. Management estimates the expected volatility using a combination of the Company's historical volatility and the volatility of a group of comparable companies. For the 3 and 9 months ended September 30, 2006, SIGA recorded a gain of $350,789 and a loss of $721,063, respectively, representing changes in the instruments' fair value.

6. Related Parties

During the nine months ended September 30, 2006, the Company incurred costs of $62,500 related to work performed by an affiliate of a related party in connection with one of the Company's lead product programs. On September 30, 2006, the Company's outstanding payables included $81,400 payable to the related party and its affiliate. Accounts receivable at September 30, 2006 included $46,883 due from a related party.

7. Notes Payable

On March 20, 2006, SIGA entered into a Bridge Note Purchase Agreement ("Note Purchase Agreement") with PharmAthene, Inc. ("PHTN") for the sale of three 8% Notes by SIGA, for $1,000,000 each. The first, second and third Notes were issued on March 20, 2006, April 19, 2006, and June 19, 2006, respectively. The proceeds of the Notes were used by the Company for (i) expenses directly related to the development of SIGA's lead product, SIGA-246, (ii) expenses related to the Company's planned merger with PHTN and (iii) corporate overhead. Pursuant to a Security Agreement between the Company and PHTN, also entered into on March 20, 2006, the Notes were secured by a first priority security interest in the Company's assets (other than assets subject to the security interest granted to General Electric Capital Corporation). On October 23, 2006, the Company paid PHTN $3,114,400 in full repayment of the three notes and interest accrued thereon.

8. Stock Compensation Plans

In January 1996, the Company implemented its 1996 Incentive and Non-Qualified Stock Option Plan (the "Plan"). The Plan as amended provides for the granting of up to 11,000,000 shares of the Company's common stock to employees, consultants and outside directors of the Company. The exercise period for options granted under the Plan, except those granted to outside directors, is determined by a committee of the Board of Directors. Stock options granted to outside directors pursuant to the Plan must have an exercise price equal to or in excess of the fair market value of the Company's common stock at the date of grant.

For the three and nine months ended September 30, 2006, the Company recorded compensation expense of $103,583 and $340,281, respectively, related to stock options. The total fair value of options vested during the three and nine months ended September 30, 2006 was $184,061 and $502,761. The total compensation cost not yet recognized related to non-vested awards at September 30, 2006 is $173,384. The weighted average period over which total compensation cost is expected to be recognized is 2.25 years.

The Company did not grant any option awards during the 3 months ended September 30, 2006. SIGA calculated the fair value of options awarded during the first 3 months of 2006 using the Black-Scholes model with the following weighted average assumptions:

Weighted Average Assumptions	Nine months ended September 30, 2006
Expected volatility	54.35%
Dividend Yield	0.00%
Risk-free interest rate	4.29%
Forfeitures rate	2.50%
Expected holding period	3.00

The Company calculates the expected volatility using a combination of SIGA's historical volatility and the volatility of a group of comparable companies. The risk-free interest rate assumption is based upon observed interest rate appropriate for the term of the Company's employee stock options. The dividend yield assumption is based on the Company's intent not to issue a dividend in the foreseeable future. The expected holding period assumption was estimated based on historical experience.

Stock options activity of the Company during the nine months ended September 30, 2006, is summarized as follows:

	Number of Shares	Weighted Average Exercise Price ($)
Options outstanding at December 31, 2005	9,399,561	2.00
Granted	122,500	0.94
Forfeited	(1,256,500)	1.30
Expired	(33,334)	1.50
Exercised	--	--
Options outstanding at September 30, 2006	8,232,227	2.09

	Number of Shares	Weighted Average Intrinsic Value ($)
Nonvested options at December 31, 2005	1,987,500	--
Nonvested options at September 30, 2006	343,839	0.20
Options vested during 2006	516,212	0.12
Options available for future grant at September 30, 2006	2,552,732	
Weighted average fair value of options granted during 2006	$ 0.38	
Weighted average fair value of options forfeited during 2006	$ 1.02	

The following table summarizes information about options outstanding at September 30, 2006:

Range of Exercise Price($)	Number of Options Outstanding at September 30, 2006	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($)	Number Fully Vested & Exercisable at September 30, 2006	Weighted Average Exercise Price ($)	Aggregate Intrinsic Value at September 30, 2006
1.00 - 1.85	3,056,750	7.20	1.38	2,712,911	1.39	$ 329,033
2.00 - 2.75	4,837,250	4.44	2.38	4,837,250	2.38	--
3.94 - 5.50	338,227	2.41	4.36	338,227	4.36	--
	8,232,227			7,888,388		$ 329,033

In February 2003, the Company entered into an agreement with an outside consultant for its support in obtaining certain government contracts. Under the terms of the agreement, upon meeting certain criteria, the Company was obligated to issue 400,000 fully vested warrants with an exercise price of $1.32 and a 3 year term. On June 30, 2006, SIGA recorded a non-cash consulting charge of $216,840 in connection with its assessment that as of June 30, 2006, it was probable that the criteria for earning the 400,000 warrants under the agreement will be met during the third quarter of fiscal 2006. On August 1, 2006, the Company issued the warrant and reduced the total charge recorded initially to $156,470, representing the total fair market value of the warrants on the issuance date.

9. Commitments and Contingencies

As of September 30, 2006, our purchase obligations are not material. The Company leases 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 and future minimum payments under notes payable are as follows:

Year ended December 31,	Lease obligations	Loans and related interest payable	Total commitments
Remainded of 2006	$ 63,850	$ 26,880	$ 90,730
2007	261,800	107,521	369,321
2008	133,200	3,533,760	3,666,960
2009	135,900	--	135,900
2010	22,700	--	22,700
Total	$ 617,450	$ 3,668,161	$ 4,285,611

On October 23, 2006, the Company repaid $3,000,000 of notes payable to PHTN, and the interest accrued thereon, originally due in 2008.

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

10. Other Transactions

On October 4, 2006, SIGA exercised its right, pursuant to its Agreement and Plan of Merger, dated June 8, 2006, with PHTN (the "Merger Agreement"), to terminate the transaction pursuant to which a subsidiary of SIGA was going to merge with PHTN. Pursuant to Section 12.1(a) of the Merger Agreement, SIGA must exclusively negotiate with PHTN the terms of a license agreement relating to SIGA-246. There can be no assurance whether, or on what terms, the parties will conclude any such license.

Item 2. Management's Discussion and Analysis of Financial Condition and 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, SIGA has pursued 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 and Arenaviruses. During the third quarter of 2006 we were awarded a 3 year, $16.5 million contract from the NIH and an additional 3 year, $4.8 million SBIR Phase II continuation grant from the NIH. Both awards support the continuing development of our smallpox drug candidate, SIGA-246. Our efforts to develop SIGA-246 were also supported by previous SBIR grants from the NIH totaling $5.8 million, a $1.1 million agreement with Saint Louis University, and a $1.6 million contract with the U.S. Army. Our initiative to advance SIGA's Arenavirus programs is supported by a 3 year, $6.0 million SBIR grant from the NIH, received in September 2006 and previous SBIR grants from the NIH totaling $6.3 million.

Our anti-viral programs are designed to prevent or limit the replication of the viral pathogen. Our anti-infectives programs are aimed at the increasingly serious problem of drug resistance. These programs are designed to block the ability of bacteria to attach to human tissue, the first step in the infection process. We are also developing a technology for the mucosal delivery of our vaccines which may allow the 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.

SIGA does not have any commercial biomedical products, and we do not expect to have such products for one to three years, if at all. We believe that we may require 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 will continue to pursue these plans, there is no assurance that we will be successful in obtaining sufficient future financing on terms acceptable to us. Management believes it has sufficient funds and projected cash flows to support SIGA's operations beyond the next twelve months.

Our biotechnology operations are based in our research facility in Corvallis, Oregon. We continue to seek to fund a major portion of our ongoing antiviral, antibiotic and vaccine programs through a combination of government grants and strategic alliances. While we have had success in obtaining strategic alliances and grants, there is no assurance 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.

Critical Accounting Estimates

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements, which we discuss under the heading "Results of Operations" following this section of our MD&A. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include share-based compensation, the assessment of recoverability of goodwill, which could impact goodwill impairments; and the assessment of recoverability of long-lived assets, which primarily impacts operating income if

impairment exists. Below, we discuss these policies further, as well as the estimates and judgments involved. Other key accounting policies, including revenue recognition, are less subjective and involve a far lower degree of estimates and judgment.

Significant Accounting Policies

The following is a brief discussion of the more significant accounting policies and methods used by us in the preparation of our financial statements. Note 2 of the Notes to the Financial Statements includes a summary of all of the significant accounting policies.

Share-based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan ("employee stock purchases") based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning on January 1, 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's Financial Statements as of and for the three and nine months ended September 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Share-based compensation related to stock options expense recognized under SFAS 123(R) for the three and nine months ended September 30, 2006 was $103,583 and $340,281, respectively. No share-based compensation expense related to employee stock options was recognized during the three and nine months ended September 30, 2005.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the grant-date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statements of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no share-based compensation expense related to stock options had been recognized in the Company's Statements of Operations when the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant-date.

Share-based compensation expense recognized during the current period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is based on historical rates. Share-based compensation expense recognized in the Company's Statements of Operations for the nine months ended September 30, 2006 includes (i) compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS 123 and (ii) compensation expense for the share-based payment awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company utilizes the Black-Scholes options pricing model for the valuation of share-based awards. Determining the fair value of these awards at the grant date requires judgment. It is reasonably likely that forfeiture rates will change in the future and impact future compensation expense. It is also reasonably likely that the variables used in the Black Scholes option pricing model will change in the future and impact the fair value of future options at the grant date and future compensation expense.

Revenue Recognition

The Company recognizes revenue from contract research and development and research progress payments in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition, ("SAB 104"). In accordance with SAB 104, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectibility is reasonably assured, contractual obligations have been satisfied and title and risk of loss have been transferred to the customer. The Company recognizes revenue from non-refundable up-front payments, not tied to achieving a specific performance milestone, over the period which the Company is obligated to perform services or based on the percentage of costs incurred to date, estimated costs to complete and total expected contract revenue. Payments for development activities are recognized as revenue is earned, over the period of effort. Substantive at-risk milestone payments, which are based on achieving a specific performance milestone, are recognized as revenue when the milestone is achieved and the related payment is due, providing there is no future service obligation associated with that milestone. 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.

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired.

The Company evaluates goodwill for impairment annually, in the fourth quarter of each year. In addition, the Company would test goodwill for recoverability between annual evaluations whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Examples of such events could include a significant adverse change in legal matters, liquidity or in the business climate, an adverse action or assessment by a regulator or government organization, loss of key personnel, or new circumstances that would cause an expectation that it is more likely than not that we would sell or otherwise dispose of a reporting unit. Goodwill impairment is determined using a two-step approach in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. In 2005, the Company operated as one business and one reporting unit. Therefore, the goodwill impairment analysis was performed on the basis of the Company as a whole using the market capitalization of the Company as an estimate of its fair value. In the past, our market capitalization has been significantly in excess of the Company's carrying value. It is reasonably likely that the future market capitalization of SIGA may exceed or fall short of our current market capitalization, in which case a different amount for potential impairment would result. The use of the discounted expected future cash flows to evaluate the fair value of the Company as a whole is reasonably likely to produce different results than the Company's market capitalization.

Intangible Assets

Acquisition-related intangibles include acquired technology, customer contracts, grants and covenants not to compete, and are amortized on a straight line basis over periods ranging from 1-4 years.

In accordance with Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the Company performs a review of its identified intangible assets to determine if facts and circumstances exist which indicate that the useful life is shorter than originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances do exist, the Company assesses the recoverability of identified intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Our estimates of projected cash flows are dependent on many factors, including general economic trends, technological developments and projected future contracts and government grants. It is reasonably likely that that future cash flows associated with our intangible assets may exceed or fall short of our current projections, in which case a different amount for impairment would result. If our actual cash flows exceed our estimates of future cash flows, any impairment charge would be greater than needed. If our actual cash flows are less than our estimated cash flows, we may need to recognize additional impairment charges in future periods, which would be limited to the carrying amount of the intangible assets.

Recent accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires an entity to recognize the impact of a tax position in its financial statements if that position is more likely than not to be sustained on audit based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of fiscal year 2007, with the cumulative effect of

the change in accounting principle recorded as an adjustment to opening retained earnings. Early application of FIN 48 is encouraged. The Company is evaluating the timing of its adoption of FIN 48 and the potential effects of implementing this Interpretation on its financial condition and results of operations.

Results of Operations

Three months ended September 30, 2006 and 2005

Revenues from grants and research and development contracts for the three months ended September 30, 2006 and 2005 were $2.0 million and $2.9 million, respectively. For the three months ended September 30, 2006 we recognized $907,000 from NIH SBIR grants supporting two of our lead programs. Revenues from NIH SBIR grants supporting these programs during the same period in 2005 were $2.7 million. $1.1 million of the revenues recognized from these grants and contracts during the three months ended September 30, 2005, related to expenditures that SIGA incurred during the quarter ended June 30, 2005, prior to approval of the second year of these grants. The decline of $1.8 million was partially offset by an increase of $834,000 in revenues recognized in connection with a $3.2 million, one year contract with USAMRMC. The agreement, for the rapid identification and treatment of anti-viral diseases, was entered into on September 22, 2005 and is funded through the USAF (the "USAF Agreement"). The decline was also offset by $119,000 recorded in connection with a $500,000, one year, Phase I SBIR grant from the NIH to support the development of our Bacterial Commensal Vector technology for the delivery of smallpox vaccine, ending on February 28, 2007. On August 30, 2006, we received a three year, $6.0 million award from the NIH to support the development of our antiviral drugs for Lassa fever virus. On August 1, 2006, we received a three year, $4.8 million SBIR Phase II continuation grant from the NIH to support the development of our smallpox drug candidate, SIGA-246. On September 26, 2006, we entered into a three year, $16.5 million contract with the National Institute of Allergy and Infectious Diseases of the NIH, to further advance the development of our smallpox drug candidate. Revenues from these new grants and contracts will be recognized as services are performed.

Selling, general and administrative expenses ("SG&A") were $802,000 and $415,000 for the three months ended September 30, 2006, and 2005, respectively. The increase of $387,000 or 93% is primarily due to legal and accounting expenses of $258,000 incurred during the three months ended September 30, 2006 in connection with our merger agreement with PHTN which was terminated in October 2006, and a credit of $200,000 in legal expenses recorded during the same period in 2005. The increase in legal and accounting fees were partially offset by a decline of $100,000 in payroll expenses from the quarter ended September 30, 2005.

Research and development expenses ("R&D") increased $391,000 or 22% from $1.8 million for the three months ended September 30, 2005 to $2.2 million for the three months ended September 30, 2006. The increase is primarily due to $345,000 incurred during the three months ended September 30, 2006 under our agreement with the USAF and an increase of $200,000 in payroll expenses related to the expansion of the Company's research and development work force. In addition, on April 1, 2006, we completed the renovation of a new laboratory space in Corvallis, Oregon. Depreciation expense and lab supplies expenditures for the three months ended September 30, 2006, increased by $220,000 and $105,000, respectively, from the same period in 2005. These increases were partially offset by a decline of $80,000 in amortization expense and a decline of $375,000 in expenditures related to two of our lead programs.

During the three months ended September 30, 2006, and 2005 we invested $442,000 and $600,000, respectively, in the development of our lead drug candidate, SIGA-246, an orally administered anti-viral drug that targets the smallpox virus. For the three months ended September 30, 2006, we invested $176,000 in our internal development resources and $266,000 on external manufacturing and clinical testing activities. For the three months ended September 30, 2005, we invested $168,000 in our internal development resources and $464,000 in pre-clinical testing of SIGA-246. From inception of the SIGA-246 development program to-date, we have invested $5.9 million related to this initiative, of which $1.4 million and $4.5 million were spent on internal development resources, and clinical and pre-clinical work, respectively. These resources reflect SIGA's research and development expenses directly related to the program. They exclude additional expenditures such as the cost to acquire the program, patent costs, allocation of indirect expenses, and the value of other services received from the NIH and the Department of Defense ("DoD").

$326,000 and $349,000 of our R&D expenses during the three months ended September 30, 2006 and 2005, respectively, were used to support the development of ST-294, a drug candidate which has demonstrated significant antiviral activity in cell culture assays against arenavirus pathogens. For the three months ended September 30, 2006,

we invested $110,000 in internal development resources and $216,000 in pre-clinical testing. For the three months ended September 30, 2005, we spent $189,000 on internal human resources and $160,000 on pre-clinical testing of ST-294. From inception of the ST-294 development program to-date, we have spent a total of $2.8 million related to this program, of which $1.5 million and $1.3 million were expended on internal human resources and pre-clinical work, respectively. These resources reflect SIGA's research and development expenses directly related to the program. They exclude additional expenditures such as the cost to acquire the program, patent costs, allocation of indirect expenses, and the value of other services received from the NIH and the DoD.

R&D expenses related to our USAF Agreement were $172,000 and $360,000 for internal human resources and external R&D services, respectively, during the three months ended September 30, 2006. During the same period in 2005, we spent $26,000 and $16,000 on internal human resources and external R&D services, respectively. Costs related to our work on the USAF Agreement, during the term of the agreement to-date were $1.7 million, of which we spent $717,000 and $903,000 on internal human resources and external R&D services, respectively. These resources reflect SIGA's research and development expenses directly related to this agreement. They exclude additional expenditures such as patent costs and allocation of indirect expenses.

Patent preparation expenses for the three months ended September 30, 2006 and 2005 were $36,000 and $8,000, respectively.

A gain of $351,000 was recorded during the three months ended September 30, 2006, reflecting the decline in fair market value of common stock rights and common stock warrants sold in November 2005, from June 30, 2006 to September 30, 2006. The warrants and rights to purchase common stock of SIGA were recorded at fair market value and classified as liabilities at the time of the transaction.

Other expenses, net, were $48,000 for the three months ended September 30, 2006 primarily reflecting interest expense related to the three $1.0 million notes payable to PHTN. During the same period in 2005 we recorded net other income of $2,000.

Our product programs are in the early stage of development. At this stage of development, we cannot make reasonable estimates of the potential cost for most of our programs to be completed or the time it will take to complete the project. Our lead product, SIGA-246, is an orally administered anti-viral drug that targets the smallpox virus. In December 2005 the FDA accepted our IND application for SIGA-246 and granted it Fast-Track status. Fast Track programs of the FDA are designed to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs.

We expect that costs to complete our SIGA-246 program will approximate $15 million to $20 million, and that the project could be completed in 12 months to 36 months. There is a high risk of non-completion of any program, including SIGA-246, because of the lead time to program completion and uncertainty of the costs. Net cash inflows from any products developed from our programs are at least one 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, other than our smallpox program that entered phase I clinical trials in 2006, is in the relatively early stage of development. Products for the biological warfare defense market, such as the SIGA-246 smallpox anti-viral, could generate revenues in one to three years. We believe the products directed toward this market are on schedule. We expect the future research and development cost of our biological warfare defense programs to increase as the potential products enter animal studies and safety testing, including human safety trials. Funds for future development will be partially paid for by NIH SBIR grants, 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 will slow or possibly be suspended. 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.

Nine months ended September 30, 2006 and 2005

Revenues from grants and research and development contracts for the nine months ended September 30, 2006 and 2005 were $4.9 million and $6.2 million, respectively. Revenues recorded for the nine months ended September 30,

2006 declined $1.3 million or 22% from the same period in the prior year. For the nine months ended September 30, 2006 we recorded $2.2 million from NIH SBIR grants and an agreement with Saint Louis University, supporting two of our lead programs. Revenues from NIH SBIR grants supporting these programs during the same period in 2005 were $5.6 million. The decline of $3.4 million was partially offset by $2.1 million of revenues recognized in connection with our $3.2 million, one year contract with USAMRMC. The agreement, for the rapid identification and treatment of anti-viral diseases, was entered into on September 22, 2005 and is funded through the USAF. The decline was also offset by $278,000 recorded in connection with a $500,000, one year, Phase I SBIR grant from the NIH to support the development of our Bacterial Commensal Vector technology for the delivery of smallpox vaccine, ending on February 28, 2007. On August 30, 2006, we received a three year, $6.0 million award from the NIH to support the development of our antiviral drugs for Lassa fever virus. On August 1, 2006, we received a three year, $4.8 million SBIR Phase II continuation grant from the NIH to support the development of our smallpox drug candidate, SIGA-246. On September 26, 2006, we entered into a three year, $16.5 million contract with the National Institute of Allergy and Infectious Diseases of the NIH, to further advance the development of our smallpox drug candidate. Revenues from these new grants and contracts will be recognized as services are performed.

Selling, general and administrative expenses ("SG&A") for the nine months ended September 30, 2006 and 2005 were $3.2 million and $2.1 million, respectively. The increase of $1.1 million or 56% is mainly attributed to professional fees and non-cash consulting charge recorded for the nine months ended September 30, 2006, and a credit of $200,000 in legal expenses recorded during the same period in 2005. During the nine months ended September 30, 2006 we recorded legal, accounting and consulting expenses of $752,000, $164,000 and $82,000, respectively, for due diligence services, fairness opinion and legal advice related to our merger agreement with PHTN, which was terminated in October 2006. On June 30, 3006, we recorded $217,000 of a non-cash consulting charge reflecting our assessment that certain criteria for the issuance of 400,000 warrants under a February 2003 consulting agreement, will be met during the third quarter of fiscal 2006. On August 1, 2006, we issued the warrants and reduced the total charge recorded initially to $156,470, the total fair market value of the warrants on the issuance date. We also recorded a $275,000 non-cash charge for share based compensation following the adoption of FAS 123(R) on January 1, 2006. The increases were partially offset by a decline of $140,000 in investor relations expense, a decline of $168,000 in payroll expense and a decline of $84,000 in amortization expense.

Research and development expenses were $6.2 million and $5.9 million for the nine months ended September 30, 2006 and 2005, respectively. R&D expenditures related to two of our lead programs declined $2.0 million from the nine months period in 2005. The decline was partially offset by an increase of $515,000 in payroll expenses related to the expansion of the Company's research and development work force. In addition, on April 1, 2006, we completed the renovation of a new laboratory space in Corvallis, Oregon. Depreciation expense, lab supplies expenditures and rent expense for the nine months ended September 30, 2006, increased by $418,000, $258,000, and $124,000, respectively, from the same period in 2005.

During the nine months ended September 30, 2006, and 2005 we spent $1.6 million and $2.8 million, respectively, on the development of our lead drug candidate, SIGA-246, an orally administered anti-viral drug that targets the smallpox virus. For the nine months ended September 30, 2006, we spent $489,000 on internal human resources and $1.1 million mainly on clinical testing. For the nine months ended September 30, 2005, we spent $485,000 on internal human resources and $2.3 million on pre-clinical testing of SIGA-246. From inception of the SIGA-246 development program to-date, we expended a total of $5.9 million related to the program, of which $1.4 million and $4.5 million were spent on internal human resources, and clinical and pre-clinical work, respectively. These resources reflect SIGA's research and development expenses directly related to the program. They exclude additional expenditures such as the cost to acquire the program, patent costs, allocation of indirect expenses, and the value of other services received from the NIH and the DoD.

$769,000 and $1.6 million of our R&D expenses during the nine months ended September 30, 2006 and 2005, respectively, were used to support the development of ST-294, a drug candidate which has demonstrated significant antiviral activity in cell culture assays against arenavirus pathogens. For the nine months ended September 30, 2006, we spent $456,000 on internal human resources and $313,000 mainly on pre-clinical testing. For the nine months ended September 30, 2005, we spent $777,000 on internal human resources and $787,000 on pre-clinical testing of ST-294. From inception of the ST-294 development program to-date, we spent a total of $2.8 million related to the program, of which $1.5 million and $1.3 million were expended on internal human resources and pre-clinical work, respectively. These resources reflect SIGA's research and development expenses directly related to the program. They exclude

additional expenditures such as the cost to acquire the program, patent costs, allocation of indirect expenses, and the value of other services received from the NIH and the DoD.

R&D expenses related to our USAF Agreement were $548,000 and $653,000 for internal human resources and external R&D services, respectively, during the nine months ended September 30, 2006. During the same period in 2005, we spent $26,000 and $16,000 on internal human resources and external R&D services, respectively. Costs related to our work on the USAF Agreement, during the term of the agreement to-date were $1.6 million, of which we spent $717,000 and $903,000 on internal human resources and external R&D services, respectively. These resources reflect SIGA's research and development expenses directly related to this agreement. They exclude additional expenditures such as patent costs and allocation of indirect expenses.

Patent preparation expenses for the nine months ended September 30, 2006 were $259,000 compared to $274,000 for the nine months ended September 30, 2005. During the nine months period in 2005 we incurred higher patent costs in connection with the Plexus Vaccine Inc. and ViroPharma Incorporated asset acquisitions.

A loss from the increase in fair market value of common stock rights and common stock warrants was recorded in connection with the sale of common stock, warrants and rights in November 2005. The warrants and rights to purchase common stock of SIGA were recorded at fair market value and classified as liabilities at the time of the transaction. A loss of $721,000 was recorded by us, reflecting the increase in the fair value of the warrants and the rights to acquire additional shares of our common stock, during the period December 31, 2005 to September 30, 2006.

Other loss of $60,000 for the nine months ended September 30, 2006 comprised mainly of interest expense of $116,000 related to our loans payable and interest income of $48,000. Other loss of $2,200 for the nine months ended September 30, 2005 comprised of interest income of $12,800 and loss on impairment of our investment in Pecos' common stock of $15,000.

Our product programs are in the early stage of development. At this stage of development, we cannot make reasonable estimates of the potential cost for most of our programs to be completed or the time it will take to complete the project. Our lead product, SIGA-246, is an orally administered anti-viral drug that targets the smallpox virus. In December 2005 the FDA accepted our IND application for SIGA-246 and granted it Fast-Track status. Fast Track programs of the FDA are designed to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs.

We expect that costs to complete our SIGA-246 program will approximate $15 million to $20 million, and that the project could be completed in 12 months to 36 months. There is a high risk of non-completion of any program, including SIGA-246, because of the lead time to program completion and uncertainty of the costs. Net cash inflows from any products developed from our programs are at least one 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, other than our smallpox program that entered phase I clinical trials in 2006, is in the relatively early stage of development. Products for the biological warfare defense market, such as the SIGA-246 smallpox anti-viral, could generate revenues in one to three years. We believe the products directed toward this market are on schedule. We expect the future research and development cost of our biological warfare defense programs to increase as the potential products enter animal studies and safety testing, including human safety trials. Funds for future development will be partially paid for by NIH SBIR grants, 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. 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.

Liquidity and Capital Resources

As of September 30, 2006, we had $2.6 million in cash and cash equivalents. On October 19, 2006, we entered into a Securities Purchase Agreement for the issuance and sale of 2,000,000 shares of the Company's common stock at $4.54 per share and warrants to purchase 1,000,000 shares of the Company's common stock. The warrants are exercisable at 110% of the closing price on the closing date of the transaction at any time and from time to time through and including the seventh anniversary of the closing date. With respect to the transaction, we also entered into a Finder's Agreements. The finders fee under the agreement includes cash compensation of 3% of the gross amount financed and warrants to acquire 136,200 shares of the Company's common stock at terms equal to the investors' warrants. Also in connection with the transaction, pursuant to our existing Exclusive Finder's Agreement, we paid a finder's fee consisting of cash compensation of 4% of the amount financed and warrants to acquire 136,200 shares of our common stock, at terms equal to the investors' warrants. We received net proceeds of $8.4 million from the transaction.

In October, 2006, we received net proceeds of $3.0 million from exercises of warrants and options to purchase shares of the Company's Common stock.

On August 30, 2006, we received a three year, $6.0 million award from the NIH to support the development of our antiviral drugs for Lassa fever virus. On August 1, 2006, we received a three year, $4.8 million SBIR Phase II continuation grant from the NIH to support the development of our smallpox drug candidate, SIGA-246. On September 26, 2006, we entered into a three year, $16.5 million contract with the National Institute of Allergy and Infectious Diseases of the NIH, to further advance the development of our smallpox drug candidate. Revenues from these new grants and contracts will be recognized as services are performed.

On October 4, 2006, SIGA exercised its right, pursuant to its Agreement and Plan of Merger, dated June 8, 2006, with PHTN (the "Merger Agreement"), to terminate the transaction pursuant to which a subsidiary of SIGA was going to merge with PHTN. Pursuant to Section 12.1(a) of the Merger Agreement, SIGA must exclusively negotiate with PHTN the terms of a license agreement relating to SIGA-246. There can be no assurance whether, or on what terms, the parties will conclude any such license.

On March 20, 2006, in connection with the transaction, we entered into a Bridge Note Purchase Agreement ("Notes Purchase Agreement") with PHTN for the sale of three 8% Notes by SIGA, for $1,000,000 each. The first, second and third Notes were issued on March 20, 2006, April 19, 2006, and June 19, 2006, respectively. The proceeds of the Notes were used by the Company for (i) expenses directly related to the development of SIGA's lead product, SIGA-246, (ii) expenses related to the Company's planned merger with PHTN and (iii) corporate overhead. Pursuant to a Security Agreement between SIGA and PHTN also entered into on March 20, 2006, the Notes were secured by a first priority security interest in the Company's assets (other than assets subject to the security interest granted to General Electric Capital Corporation). On October 23, 2006, we paid PHTN $3,114,400 in full repayment of the three notes and interest accrued thereon.

We believe that our existing cash combined with anticipated cash flows, including receipt of future funding from government contracts and grants will be sufficient to support our operations beyond the next twelve months and that sufficient cash flows will be available to meet our business objectives.

Operating activities

Net cash used in operations during the nine months ended September 30, 2006 was $2.9 million compared to $1.4 million used during the nine months ended September 30, 2005. The increase in cash used in operations is mainly due to professional fees of $1.0 million incurred in connection with the terminated merger with PHTN, and development expenses of $660,000 incurred in connection with human clinical trials of SIGA-246. During the nine months ended September 30, 2006, cash generated from the collection of outstanding accounts receivable and receipt of payments from the USAF was $2.0 million higher than during the same period in 2005. This increase was partially offset by the use of $687,000 to reduce our accounts payable balance during the nine months ended September 30, 2006, as compared with a decline of $66,000 in the accounts payable balance during the same period in 2005.

Investing activities

Capital expenditures during the nine months ended September 30, 2006 and 2005 were $805,000 and $655,000, respectively, and mainly supported the renovation of our research facility in Oregon.

Financing activities

Cash provided by financing activities was $4.6 million and $241,000 during the nine months ended September 30, 2006 and 2005, respectively. During the nine months ended September 30, 2006 we received $3.0 million from notes payable issued to PHTN, $1.5 million from exercises of rights to purchase 1,500,000 shares of our common stock for $1.10 per share, and $100,000 from exercises of warrants to purchase shares of our common stock. On October 23, 2006, we paid PHTN $3,114,400 as repayment of the three notes and interest accrued thereon. During the nine months ended September 30, 2005 we received $276,000, net, from the issuance of a promissory note payable to General Electric Capital Corporation (GE). The note is payable in 36 monthly installments of principal and interest of 10.31% per annum. During the nine months ended September 30, 2005 we made payments of $35,000 to GE.

Other

As of September 30, 2006, we do not expect receipt of up-front and milestone payments from any of our current collaborative and other agreements. Payments from current NIH SBIR grants are received upon recognition of the related revenue. As of September 30, 2006, we have received the entire amount of $3.2 million from the USAF agreement, of which, $434,000 was recorded as deferred revenue on September 30, 2006.

Off-Balance Sheet Arrangements

SIGA does not have any off-balance sheet arrangements.

Safe Harbor Statement

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, including statements regarding the efficacy of potential products, the timelines for bringing such products to market and the availability of funding sources for continued development of such products. Forward-looking statements are based on management's estimates, assumptions and projections, and are subject to uncertainties, many of which are beyond the control of SIGA. Actual results may differ materially from those anticipated in any forward-looking statement. Factors that may cause such differences include the risks that (a) potential products that appear promising to SIGA or its collaborators cannot be shown to be efficacious or safe in subsequent pre-clinical or clinical trials, (b) SIGA or its collaborators will not obtain appropriate or necessary governmental approvals to market these or other potential products, (c) SIGA may not be able to obtain anticipated funding for its development projects or other needed funding, (d) SIGA may not be able to secure funding from anticipated government contracts and grants, (e) SIGA may not be able to secure or enforce adequate legal protection, including patent protection, for its products, (f) unanticipated internal control deficiencies or weaknesses or ineffective disclosure controls and procedures and (g) regulatory approval for SIGA's products may require further or additional testing that will delay or prevent approval. More detailed information about SIGA and risk factors that may affect the realization of forward-looking statements, including the forward-looking statements in this presentation, is set forth in SIGA's filings with the Securities and Exchange Commission, including SIGA's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and in other documents that SIGA has filed with the Commission. SIGA urges investors and security holders to read those documents free of charge at the Commission's Web site at http://www.sec.gov. Interested parties may also obtain those documents free of charge from SIGA. Forward-looking statements speak only as of the date they are made, and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

None

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Acting Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II
Other information

Item 1. Legal Proceedings - On or about February 28, 2006, Four Star Group, a Division of Executive Intelligence Network, LLC filed suit in the Supreme Court of the State of New York naming as defendants SIGA Technologies, Inc., Bernard Kasten and "John Odgen [sic]." In 2004, SIGA renewed a contract with Four Star under which Four Star was to assist SIGA in identifying and obtaining contracts and grants. Plaintiff Four Star alleged that SIGA breached its contract by allegedly failing to compensate Four Star within the time set by the contract and that SIGA breached the contract, and tortuously interfered with Four Star's contractual relationships, by allegedly soliciting and/or hiring certain affiliates of Four Star. Plaintiff asserted that it had not fully calculated its damages, but stated that they were "believed to be" in excess of approximately $700,000. Plaintiff also sought relief preventing defendants from soliciting agents and employees of plaintiff. SIGA and plaintiff Four Star Group have agreed in principle, subject to the execution of definitive documentation, on a settlement of their lawsuit. Pursuant to this settlement, Four Star will grant a general release in exchange for which SIGA will pay $35,000 to Four Star and will file on or before December 5, 2006 a registration statement with respect to the shares underlying the warrants previously granted to Four Star.

Item 1A. Risk Factors - There were no material changes to Risk Factors disclosed in SIGA's 2005 Form 10-K

Item 2. Unregistered Sale of Equity 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

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

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

* Filed herein

SIGNATURES

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

SIGA Technologies, Inc.
(Registrant)

Date: November 1, 2006

By:/s/ Thomas N. Konatich

Thomas N. Konatich

Chief Financial Officer and
Acting Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas N. Konatich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SIGA Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions);

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2006

By: /s/ Thomas N. Konatich

Thomas N. Konatich
Chief Financial Officer and
Acting Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SIGA Technologies, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas N. Konatich., Chief Financial Officer and Acting Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 1, 2006

/s/ Thomas N. Konatich

Thomas N. Konatich
Chief Financial Officer and
Acting Chief Executive Officer