IGI INC
Form 10KSB
April 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 number 001-08568

IGI, Inc.
(Name of small business issuer in its charter)

Delaware	01-0355758
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
105 Lincoln Ave., Buena, NJ	08310
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (856) 697-1441

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

Title of each class	Name of each exchange on which registered
Common Stock-$0.01 Par Value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act [ ]

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

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

Issuer's revenues for its most recent fiscal year were $2,620,000.
The aggregate market value of the registrant's common stock held by non-affiliates on March 28, 2007 (based on the closing stock price on the American Stock Exchange) on such date was approximately $4,398,000

As of March 28, 2007, there were 14,612,899 shares of common stock outstanding.

Documents Incorporated By Reference

Certain information contained in the definitive Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 10, 2007 is incorporated by reference into Part III hereof.

Transitional Small Business Disclosure Format (Check One) Yes [ ] No [X]
<PAGE>

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

IGI, Inc. ("IGI" or the "Company") was incorporated in Delaware in 1977. Its executive offices are at 105 Lincoln Avenue, Buena, New Jersey. The Company is principally engaged in the development and manufacturing of topical semi solid and liquid products for pharmaceutical, cosmeceutical and cosmetic companies with or without its proprietary encapsulation technology.

In December 1995, IGI distributed its ownership of its majority-owned subsidiary, Novavax, Inc. ("Novavax"), in the form of a tax-free stock dividend, to IGI stockholders. In connection with the distribution, the Company paid Novavax $5,000,000 and assigned them all IP related to the encapsulation technologies. As per the distribution agreement, Novavax licensed back to IGI the exclusive use of technologies in certain fields for a period of ten-years with an option to renew it for another ten years on a payment of $1,000,000 license fee. The license (the "IGI License Agreement") entitled IGI to the exclusive use of the Novasome® lipid vesicle encapsulation and certain other technologies ("Microencapsulation Technologies" or collectively the "Technologies") in the fields of (i) animal pharmaceuticals, biologicals and other animal health products; (ii) foods, food applications, nutrients and flavorings; (iii) cosmetics, consumer products and dermatological over-the-counter and prescription products (excluding certain topically delivered hormones); (iv) fragrances; and (v) chemicals, including herbicides, insecticides, pesticides, paints and coatings, photographic chemicals and other specialty chemicals, and the processes for

making the same (collectively, the "IGI Field"). IGI exercised its option on December 12, 2005 to extend the exclusive license for an additional ten-year period for $1,000,000. In 2006, the Company sublicensed back to Novavax certain rights with respect to animal pharmaceuticals and biologicals.

IGI's business is primarily focused on the continued commercialization of the Microencapsulation Technologies for skin care applications. These efforts have been directed toward high quality skin care products that the Company helps develop and manufactures for pharmaceutical, cosmetic and consumer products companies. IGI plans to continue to work with cosmetics, personal care products and over-the-counter ("OTC") pharmaceutical companies for commercial application of its encapsulation technologies.

In July 2004, the Company, in order to allow growth and new business opportunities, renegotiated its contract with Estee Lauder, a significant customer. The goal of the Company was to lift the exclusivity it had under the prior agreement with Estee Lauder that did not allow the Company to do business with competitors of Estee Lauder. The exclusivity provision was removed from the agreement, the terms of which are as follows: Estee Lauder is manufacturing all Novasome® and non-Novasome® products at their facility and is paying the Company a royalty per kilogram on all Novasome® products manufactured by Estee Lauder, including all new products developed, plus they made a one time payment to the Company of $100,000 in 2004 for the use of the Novamix™ machine, which is used to manufacture Novasomes®.

In the second quarter of 2006, the Company launched MIAJ™, its own line of anti-aging skin care products. The line consists of ten products. The line also contains its proprietary and patented 10% pure vitamin C serum product. The MIAJ™ line of products is currently available via the Internet at www.miaj.com. The Company intends to sell these products through other marketing channels by collaborating with other companies expert in selling through a particular market channel.

In December 2006, the Company purchased three fully automatic filling and packaging lines to enhance the services we provide to our customers. This equipment will allow the Company to fill the products we currently manufacture and ship in bulk form.

On October 11, 2006, the Company signed an agreement with DermWorx, Inc. to exclusively license, develop and manufacture a series of dermatological specialty products utilizing its encapsulation technology, for Dermworx. The agreement currently calls for the Company to receive product development fees, manufacturing revenues and royalties on product sales from Dermworx. In addition, the agreement also calls for IGI to receive shares of DermWorx stock which would result in IGI holding approximately 19.9% of the issued and outstanding shares of common stock of DermWorx. Due to its inability to raise capital in the required time frame, Dermworx was not able to make the second payment to the Company for such exclusive license, as a result, Dermworx only has rights to one product. The agreement is now being renegotiated for the benefit of both of the companies. The first installment of $250,000 received by the Company was recorded as deferred income for the year ended December 31, 2006. The Company will recognize those fees as per the renegotiated agreement.
<PAGE> 2

Metal Plating Business

In February 2004, the Company signed a license agreement with Universal Chemical Technologies, Inc. ("UCT") to utilize its patented technology for an electroless Nickel Boride metal finishing process. This was a new venture for the Company and the Company had capital expenditures of approximately $913,000, related to building improvements and purchase of equipment, spread over 2004 and 2005. However, due to below expected sales performance and objections by customers to having the plating line next to the pharmaceutical operation, the Company ceased operations of the metal finishing division in November 2005. The business was classified as discontinued operation in the third quarter of 2006 and an impairment charge of $175,000 was previously recorded in the fourth quarter of 2005 on the equipment for the plating line. On July 10, 2006, the Company's Board of Directors along with management accepted a plan to sell the plating equipment to a third party. Management recorded an additional impairment expense of $38,000 for the equipment in the third quarter of 2006 to record the equipment at its current fair market value less costs to sell. In the first quarter of 2007, the Company received a purchase order and deposit in the amount of $130,000 toward the purchase of the plating equipment from UCT to re-purchase the equipment back from the Company. The purchase price of the equipment of $260,000 represents the equipment net of outstanding liabilities in the amount of $118,000 owed to UCT by the Company.

Manufacturing

The Company's manufacturing operations include bulk manufacturing and testing of conventional cosmetics, dermatologicals, emulsions, shampoos and the Novasome® based products. As previously noted, the Company will have the ability to fill the products it manufactures beginning in the second quarter of 2007. The raw materials used for these products are available from several suppliers. The Company has manufacturing capacity to meet its current and foreseeable needs.

Research and Development

The Company's consumer products development efforts are directed toward Novasome® encapsulation to improve performance and efficacy of specialty chemicals, cosmetics, consumer products, and pharmaceutical products. Total product development and research fees were $1,065,000 and $949,000 in 2006 and 2005, respectively.

Patents and Trademarks

Under the terms of the 1995 IGI License Agreement, the Company has an exclusive ten-year license to use the Patented Technologies licensed from Novavax in the IGI Field. Novavax holds 44 U.S. patents and a number of foreign patents covering the Technologies licensed to IGI with various expiration dates thru 2021. The Company also owns the Miaj trademark.

Government Regulation and Regulatory Proceedings

Government Regulations

In the United States, pharmaceuticals, including over-the-counter products that are manufactured by the Company, are subject to rigorous Food and Drug Administration ("FDA") regulations. The Company is required to obtain a satisfactory inspection by the FDA covering its manufacturing facilities before a product can be marketed in the United States. Any non-compliance with the regulatory guidelines may necessitate corrective action that may result in additional expenses and use of more resources.

In addition to regulations enforced by the FDA, the Company also is subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future federal, state or local regulations. The Company's analytical service group uses certain hazardous materials and chemicals in limited and controlled quantities. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result and any such liability could exceed the resources of the Company.
<PAGE> 3

Intense Competition in the Marketplace

The Company competes with large, well-financed cosmetic, pharmaceutical and consumer products companies, with development and marketing groups that are experienced in the industry and possess far greater resources than those available to the Company. There is no assurance that the Company's products can compete successfully against its competitors or that it can develop and market new products that will be favorably received in the marketplace. In addition, certain of the Company's customers that use the Company's encapsulation technology in their products may decide to reduce their purchases from the Company or shift their business to other suppliers.

Dependence on Major Customers

The Company's major customers are Vetoquinol USA, Genesis Pharmaceuticals, and Albrian International. The loss of any of these customers would have a material adverse effect on the Company. Major customers of the Company have sales for the latest fiscal year equal to or greater than 10% of that years gross product sales. Estee Lauder continues to be a major customer representing at least 20% of our royalty revenues for the year 2006.

Employees

On March 25, 2007, the Company had 19 full-time employees. The Company has no collective bargaining agreement with its employees, and believes that its employee relations are good.

Executive Officers of the Company

The following table sets forth (i) the name and age of each executive officer of the Company as of March 31, 2007, (ii) the position with the Company held by each such executive officer and (iii) the principal occupation held by each executive officer for at least the past five years.

Name	Age	Officer Since	Principal Occupation and Other Business Experience During Past Five Years
Rajiv Mathur	52	2007	Appointed Chief Executive Officer on January 1, 2007. Mr. Mathur was Vice President of Topical Technologies at Cardinal Health, 2001 to 2006; prior to that he worked for IGI, Inc. from 1986 to 2001 in various capacities.
Nadya Lawrence	38	2001	Appointed Vice President of Operations in 2001. Prior to that, Ms. Lawrence served as the Company's R&D Technical Director and R&D Manager from 1995 to 2001.

Carlene Lloyd	34	2004	Appointed Vice President of Finance in July 2004. Prior to that, Ms. Lloyd served as the Company's Controller and Senior Accountant from 1999 to 2004.

Mr. Gerardi had been Chief Executive Officer through December 31, 2006 and was replaced by Mr. Mathur in January 2007.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's executive administrative offices are located in Buena, New Jersey, in a 25,000 square foot facility built in 1995, which the Company owns. This facility is also used for production, product development, marketing and warehousing for the Company's cosmetic, pharmaceutical and personal care products. The Company also owns four acres of land adjacent to its main facility that can be used for future expansion. During 2006 Univest Management, Inc. held a first mortgage on the Company's real property, securing principal and interest payments on a note in the principal amount of $1,000,000. During part of 2006, Pharmachem Laboratories, Inc. held a second mortgage on such property securing a $100,000 loan. The Univest loan was repaid in March 2007 and the Pharmachem loan was repaid in 2006.

The Company was previously a party to an agreement of sale-leaseback with Bellevue Properties, LLC for the above-described facility and land building and the adjacent land. The closing of the agreement was subject to a contingency and, as amended became terminable by either party on or after October 16, 2006 if the contingency was not met by such date On March 28, 2007 the Company terminated the agreement; the contingency not having been met as of such date.
<PAGE> 4

ITEM 3. LEGAL PROCEEDINGS

On March 2, 2001, the Company discovered the presence of environmental contamination resulting from an unknown heating oil leak at its now divested Companion Pet Products manufacturing site. The remediation was completed in September 30, 2003. The Company has spent approximately $562,000 to date on the cleanup. Periodic soil monitoring will be required for the next two years at an estimated cost of $90,000, which has been accrued as of December 31, 2006. The Company received a monetary settlement of $181,000 in December 2005 from one of its prior insurance carriers and was recorded in other income in the Statement of Operations for the year ended December 31, 2005.

The adjacent property was also affected by this contamination and the Company was involved in a lawsuit with the property owner. IGI believes that it has performed the required soil remediation of the adjacent property. In 2005, IGI settled the case for $70,000. The settlement was recorded in Selling, General and Administration Expenses in the Statement of Operations for the year ended December 31, 2005.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's stockholders during the last quarter of 2006.
<PAGE> 5

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The Company has never paid cash dividends on its Common Stock. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.")

The principal market for the Company's Common Stock ($.01 par value) (the "Common Stock") is the American Stock Exchange ("AMEX") (symbol: "IG"). On June 12, 2006, AMEX notified the Company that it was below certain of the Exchange's continuing listing standards. Specifically, the Company was required to reflect income from continuing operations and/or net income in one of its four most recent fiscal years and a minimum of $4,000,000 in stockholders' equity to remain listed on the exchange. The Company had net income from continuing operations in its 2002 fiscal year, but had net losses and losses from continuing operations in each of its 2003, 2004, and 2005 fiscal years. The Company's stockholders' equity at December 31, 2006 was $2.1 million. On July 17, 2006, the Company submitted a plan of compliance to AMEX. AMEX had 45 days to review the plan and notify the Company whether they will accept the plan or if the Company will be subject to delisting procedures. On September 1, 2006, the Exchange notified the Company that it has completed its review of IGI's plan of compliance and supporting documentation and has determined that, in accordance with Section 1009 of the Company Guide, the Plan makes a reasonable demonstration of the Company's ability to regain compliance with the continued listing standards by the end of the Plan period and therefore its listing is being continued pursuant to an extension. The targeted completion date to regain compliance with the continued listing standards is December 12, 2007. Failure to regain compliance with the continued listing standards by the end of the extension period could result in the Company being delisted from the American Stock Exchange.

In 2006, the Company was also notified by the American Stock Exchange ("Amex") that the Company has more shares outstanding than the Amex has recorded as listed. Under Section 301 of the Amex Company Guide, the Company may not issue unlisted shares. The Amex has asked the Company to investigate the situation. The Company believes that at least some of the shares in question were in fact listed. Because of management changes the Company has had difficulty in locating the listing application for such shares. The Company has filed an additional listing of application for the shares in question and we are awaiting a response. Failure to satisfactorily resolve this issue with Amex could result in the Company being delisted from the American Stock Exchange.

The following table shows the range of high and low closing sale prices on the AMEX for the periods indicated:

	High	Low
2006		
First quarter	$1.35	$ .81
Second quarter	1.45	.80
Third quarter	2.05	1.02
Fourth quarter	2.07	.90

2005		
First quarter	$1.40	$ .95
Second quarter	1.35	.97
Third quarter	1.34	.94
Fourth quarter	.98	.67

The approximate number of holders of record of the Company's Common Stock at March 25, 2007 was 656 (not including stockholders for whom shares are held in a "nominee" or "street" name).
<PAGE> 6

Recent Sales of Unregistered Securities

Pursuant to a Private Placement Memorandum ("Private Placement") dated March 7, 2007, the Company issued 1,500,000 shares to an accredited investor, Pharmachem Laboratories, Inc for gross proceeds of $1,500,000. The Company granted Pharmachem the right to have its shares included in one registration (except in the case it suffers a cutback of its shares) of the company securities ("piggyback registration rights) until January 1, 2010, with certain exception and subject to certain rights of the Company to cutback shares to be included in the registration.

The aforementioned securities were sold in reliance upon the exemption afforded by the provisions of Regulation D, as promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), and/or Section 4(2) of the Act.

In connection with the transaction the Company paid $112,500 to Landmark Financial Corporation, 22,123 shares to Landmark and issued a warrant to purchase 150,000 shares at $1.00 per share expiring March 7, 2009. The aforementioned securities were sold in reliance upon the exemption afforded by the provisions of Regulation D, as promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), and/or Section 4(2) of the Act.

The Company used the proceeds to repay $1,164,000 in principal and accrued interest to Univest Management, Inc., an entity controlled by Frank Gerardi, to pay Landmark its fee and for general working capital purposes.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Statements

This "Management's Discussion and Analysis or Plan of Operation" section and other sections of this Annual Report on Form 10-KSB contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry and markets in which the Company operates and on management's beliefs and assumptions. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Company. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance, and involve certain risks, uncertainties and assumptions, which are difficult to predict. (See "Factors Which May Affect Future Results" below.) Therefore, actual outcomes and results

may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

During 2006, the Company continued its efforts to expand the commercialization of the licensed Novasome® technology through initiation of product development agreements with new and existing customers. Several of these product development agreements were signed over the last 6 months period and are in execution phase. These products are projected to be commercialized by the end of this year, which is the typical timeline required to develop and manufacture commercial quantities of new cosmetic products. The Company launched its first product line under the name Miaj™ through direct to consumer internet sales, in June 2006. The lack of funding to advertise the product line resulted in much lower than expected sales of Miaj™ and build up of inventory. Some of the products in the inventory are dated and have limited shelf life, therefore the Company recorded an impairment charge of $70,000 in the fourth quarter of 2006 for these products.

The year 2006 proved to be a difficult one for the Company**.** The effort to expand our licensed Novasome® technology was a difficult task with such a limited amount of cash. The results for the year 2006 reflect our difficulties. The Company continued to depend on non-operational cash flow to sustain the Company; this cash flow was provided when certain of the Company's directors exercised stock options and warrants associated with the 2005 private placement completed during 2006.

In November 2006, the Company established a $1,000,000 line of credit with Pharmachem Laboratories Inc. to assist with cash flow. The funds could be borrowed and re-borrowed from time to time at a rate of 1.5% above Wall Street Prime rate. This line of credit was replaced in 2007.
<PAGE> 7

In January 2007, the Company appointed Rajiv Mathur as its President and CEO to provide vision and lead the company to profitability. Mr. Mathur has a diverse experience background of 30 years in pharmaceutical and consumer product companies. Most recently he was Vice President of Topical Division of Cardinal Health. He served on IGI's Board of Directors since September 2005. Due to his prior affiliation with IGI, Mr. Mathur has an in depth knowledge of our Novasome technology. He brings with him a new vision and focus for IGI utilizing our strengths and resources, as well as an aggressive business plan to bring this Company into profitability. Our business plan for 2007 includes the upgrading of our manufacturing and expanding our production services to include filling and packaging capabilities. These additions will provide turn key solutions to our existing and potential customers. We anticipate that our high-speed packaging services to be operational by the second quarter of 2007. We currently have orders in house from several of our existing customers to provide turn key operation. In addition to this, we are going to strengthen our technology base by adding new patents and increase our R&D product pipeline. In order to achieve its goal, the Company will enhance its employee talent base by recruiting high caliber experienced individuals.

Results of Operations

2006 Compared to 2005

The Company had a net loss of $1,667,000, or $(.13) per share, in 2006 compared to a net loss of $1,298,000, or $(.11) per share, in 2005 which resulted from the following:

Total revenues for 2006 were $2,620,000, which represented a decrease of $235,000 from revenues of $2,855,000 in 2005. Licensing and royalty income of $657,000 in 2006 decreased by $213,000 compared to 2005, primarily as a result of a decrease in Genesis Pharmaceutical royalties and a decrease of J&J Consumer royalties which were partially offset by an increase royalty revenue from Estee Lauder . The Company believes the declining royalties from J&J Consumer is related to the normal life cycle of a product and that these royalties will continue to decline.

Product sales of $1,787,000 in 2006 decreased $198,000, or 10%, compared to 2005 due mainly to a loss of product sales in 2006 to Estee Lauder but this loss was partially offset by higher sales in 2006 to Albrian International and to Vetoquinol USA.

Cost of sales decreased by $133,000, or 9%, in 2006 as compared to 2005. As a percentage of product sales, cost of sales increased slightly from 78% in 2005 to 79% in 2006. The cost of sales for 2006 included an inventory impairment charge of $70,000 to record our Miaj product line at the lower of cost or market. Several of the products in this product line have a limited shelf life and revenues from these products may never be recognized.

Selling, general and administrative expenses increased by $538,000, or 34%, from $1,567,000 in 2005 to $2,105,000 in 2006. These expenses were 80% of revenues for 2006 compared to 55% in 2005. The increase is primarily due to severance fees recorded in the amount of $190,000 for our former CEO, higher professional fees of $165,000, and higher Board of Directors fees of $57,000 recorded in 2006. A portion of the increase in professional fees in 2006 related to the recognition of $92,000 of legal fees related to the sale-leaseback agreement that the Company was a party to in 2006. The Company has cancelled the agreement in March 2007 and therefore, all legal fees related to the agreement with services provided in 2006 were expensed in 2006.

Product development and research expenses increased by $116,000 in 2006, or 12%, compared to 2005. The increase in 2006 relates to $100,000 of amortization of the Novasome licensing fee paid by the Company in paid in December 2005 for the ten year extension of the Novasome technology.

Interest expense amounted to $129,000 (net of income) in 2006 compared to interest expense of $4,000 (net of income) in 2005. The interest expense in 2006 relates to the short term notes payable recorded in December 2005.

The tax benefit of $458,000 in 2006 and $280,000 in 2005 was a result of the sales of a portion of the Company's state tax operating loss carry forwards.

The loss related to discontinued operations for the Company amounted to $58,000 for 2006 compared to a loss of $479,000 for 2005 a decrease of $421,000, or 88%. The decrease of loss was due to the shutdown of operations in 2006 for the segment. In 2005, there were sales of $12,000, cost of goods sold of $379,000 (including an impairment charge of $175,000) and selling, general and administrative costs of $112,000 compared to costs in 2006 consisting of depreciation for $20,000 and an impairment charge for $38,000 on the equipment.
<PAGE> 8

Liquidity and Capital Resources

The Company's operating activities used $377,000 in 2006, compared to $877,000 used during 2005. The decrease in cash used in 2006 was primarily due to the increase in accounts payable and deferred income offset by the larger loss and the increase in inventory.

The Company's investing activities used $133,000 of cash in 2006 compared to $752,000 used in 2005. Cash used in investing activities in 2005 were a result of the sale of the marketable securities in the amount of $335,000 offset by the payment of $1,000,000 to Novavax to extend its license agreement for an additional 10 years. The cash used in 2006 investing activities of $133,000 was for the packaging and filling machinery purchased in the fourth quarter of 2006.

The Company's financing activities provided $764,000 of cash in 2006 compared to $1,614,000 provided in 2005. The cash provided in 2006 was from the proceeds from the exercise of stock options by a former director, former employees, and current directors of the Company and from the exercise of the four warrants (described below) in the amount of $364,000, also, $100,000 was from the private placement sale of one unit of 133,333 shares of common stock and $300,000 from the borrowings under the Pharmachem line of credit. The cash provided in 2005 was (i) related to the note payable in the amount of $1,000,000 established by the Company with Univest Management Inc., a company owned by Frank Gerardi, IGI's Chairman and Former CEO, in order to exercise its option to extend its license agreement as noted above; (ii) $300,000 from the private placement sale of (3) units, each consisting of 133,333 shares of common stock and warrants to purchase 26,666 shares of common stock at an exercise price $0.90 per share: and (iii) the exercise of stock options for $338,000.

Our business operations have been partially funded over the past three years through the exercise of stock options by our directors and officers. If necessary, we may continue to seek to raise additional capital through the sale of our equity. We may accomplish this via a strategic alliance with a third party. There may be additional acquisition and growth opportunities that may require external financing. There can be no assurance that such financing will be available or available on terms acceptable to the Company.

As previously stated, in November 2006, the Company established a twelve-month $1,000,000 secured line of credit (secured by the Company's assets other than real property) with Pharmachem Laboratories Inc. to assist with cash flow. The funds could be borrowed and re-borrowed from time to time at a rate of 1.5% above Wall Street Prime rate. This line of credit was cancelled in January of 2007 when Pharmachem Laboratories Inc. agreed to participate in a private placement for 1,500,000 shares of common stock for $1,500,000. This transaction was completed in March 2007. The Company repaid the outstanding note payable plus accrued interest to Univest Management, Inc. with the funds from the private placement in March 2007. The Company subsequently established another secured line of credit of $1,000,000 in January 2007, which expires in July 2008, with Pinnacle Mountain Partners, LLC, a company owned by Dr. and Mrs. Hager, major shareholders of the Company, under substantially the same terms as the Pharmachem line of credit, except that the Pinnacle line of credit expires eighteen months from issuance.
<PAGE> 9

Risk Factors

The Company could be affected by various risks, many of which are beyond its control. Based on current information the Company believes that the following are the most significant risk factors that are affecting its business. However, the risks and uncertainties that Company faces are not limited to those discussed below. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be immaterial could also affect its business. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

Intense Competition in Consumer Products Business

The industry segments in which the Company competes are subject to intense competitive pressures

The Company's business competes with large, well-financed cosmetic, pharmaceutical and consumer products companies with development and marketing groups that are experienced in the industry and possess far greater resources than those available to the Company. There is no assurance that the Company's products can compete successfully against its competitors or that it can develop and market new products that will be favorably received in the marketplace. In addition, certain of the Company's customers that use the Company's Novasome® lipid vesicles in their products may decide to reduce their purchases from the Company or shift their business to other suppliers.

Effect of Rapidly Changing Technologies

The Company expects to sublicense its technologies to third parties, which would manufacture and market products incorporating these technologies. However, if its competitors develop new and improved technologies that are superior to the Company's technologies, its technologies could be less acceptable in the marketplace and therefore the Company's planned technology sublicensing could be materially adversely affected.

Failure to Obtain Required Financing

If necessary, the Company may continue to seek to raise additional capital through the sale of its equity or other type of financing. We may accomplish this via a strategic alliance with a third party. There may be additional acquisition and growth opportunities that may require external financing. There can be no assurance that such financing will be available or available on terms acceptable to the Company.

American Stock Exchange (AMEX) Continuing Listing Standards

On June 12, 2006, the Company was notified by AMEX that it was below certain of the Exchange's continuing listing standards. Specifically, the Company was required to reflect income from continuing operations and/or net income in one of its four most recent fiscal years and a minimum of $4,000,000 in stockholders' equity to remain listed on the exchange. The Company had net income from continuing operations in its 2002 fiscal year, but had net losses and losses from continuing operations in each of its 2003, 2004, and 2005 fiscal years. The Company's stockholders' equity at December 31, 2006 was $2.1 million.

On July 17, 2006, the Company submitted a plan of compliance to AMEX. AMEX had 45 days to review the plan and notify the Company whether they will accept the plan or if the Company will be subject to delisting procedures.

On September 1, 2006, the Exchange notified the Company that it has completed its review of IGI's plan of compliance and supporting documentation and has determined that, in accordance with Section 1009 of the Company Guide, the Plan makes a reasonable demonstration of the Company's ability to regain compliance with the continued listing standards by the end of the Plan period and therefore its listing is being continued pursuant to an extension. The targeted completion date to regain compliance with the continued listing standards is December 12, 2007. Failure to regain compliance with the continued listing standards by the end of the extension period could result in the Company being delisted from the American Stock Exchange.

In 2006, the Company was also notified by the American Stock Exchange ("Amex") that the Company has more shares outstanding than the Amex has recorded as listed. Under Section 301 of the Amex Company Guide, the Company may not issue unlisted shares. The Amex has asked the Company to investigate the situation. The Company believes that at least some of the shares in question were in fact listed. Because of management changes the Company has had difficulty in locating the listing application

for such shares. The Company has filed an additional listing application for the shares in question and we are awaiting a response. Failure to satisfactorily resolve this issue with Amex could result in the Company being delisted from the American Stock Exchange.
<PAGE> 10

Recent Pronouncements

In June 2006, the FASB issued ***Financial Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes*- An Interpretation of FASB Statement No 109.** This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than fifty percent likely of being realized upon ultimate settlement. The interpretation also provides guidance on derecognition, classification, interest and penalties, and other matters. These provisions are effective for the Company beginning in the first quarter of 2007. The Company has assessed the impact of this statement and currently does not believe that the adoption will have a material effect on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") ***No. 108, Topic 1N, Financial Statements - Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements***. SAB No. 108 addresses how to quantify the effect of an error on the financial statements and requires a dual approach to compute the materiality of the misstatement. Specifically, the amount of the misstatement is to be computed using both the "rollover" (i.e., the current year income statement perspective) and the "iron curtain" (i.e., the year-end balance sheet perspective). SAB No. 108 is effective for all fiscal years ending after November 15, 2006, and accordingly, the Company adopted SAB No. 108 in the fourth quarter of 2006. The adoption of SAB No. 108 did not have a material impact on the Company's financial condition or its results of operations.

In February 2006, the FASB issued ***SFAS No. 155, Accounting for Certain Hybrid Financial Instruments***, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for the Impairment or Disposal of Long-Lived Assets. Specifically, SFAS No. 155 amends SFAS No. 133 to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided the whole instrument is accounted for on a fair value basis. Additionally, SFAS No. 155 amends SFAS No. 140 to allow a qualifying special purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with early application allowed. The adoption of SFAS No. 155 is not expected to have a material impact on the Company's results of operations or financial position.

In September 2006, the FASB issued ***SFAS No. 157, Fair Value Measurements***. This new statement provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. The required effective date of SFAS No. 157 is the first quarter of 2008. The Company is currently evaluating the impact this statement may have on its consolidated financial statements.

In February 2007, the FASB issued ***SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities***. SFAS No. 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including insurance contracts. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, Fair Value Measurements. The Company is currently evaluating the impact of adopting SFAS No. 159 on its financial condition and results of operations.
<PAGE> 11

Critical Accounting Policies and Estimates

In December 2001, the SEC issued disclosure guidance for "critical accounting policies." The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Our significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

Environmental Remediation Liability

On March 2, 2001, the Company became aware of environmental contamination resulting from an unknown heating oil leak at its Companion Pet Products manufacturing facility. The Company immediately notified the New Jersey Department of Environmental Protection and the local authorities, and hired a contractor to assess the exposure and required clean up. Based on the initial information from the contractor, the Company originally estimated the cost for the cleanup and remediation to be $310,000. In September 2001, the contractor updated the estimated total cost for the cleanup and remediation to be $550,000. In December 2006, a further update was performed and the final estimated costs were increased to $652,000, of which $90,000 remains accrued as of December 31, 2006. Based on information provided to the Company from its environmental consultant and what is known to date, the Company believes the reserve is sufficient for the remediation of the environmental contamination. There is a possibility, however, that the remediation costs may exceed the Company's estimates.

Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. During 2006, the Company recorded an impairment charge of $38,000 to further reduce the carrying value of the equipment relating to the discontinued metal plating division to its fair value.

Deferred Tax Valuation Allowance

Deferred taxes arise due to temporary differences in the bases of assets and liabilities and from net operating losses and credit carry forwards. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's statement of operations become deductible expenses under applicable income tax laws or loss or credit carry forwards are utilized. Accordingly, realization of deferred tax assets is dependent on future taxable income against which these deductions, losses and credits can be utilized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers historical operating losses, scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As a result, the Company concluded that it was more likely than not that it will be unable to realize the gross deferred tax assets in the foreseeable future and established a valuation reserve for all such deferred tax assets.

Revenue Recognition

The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred or contractual services rendered, the sales price is fixed or determinable, and collection is reasonably assured in conformity with SAB No. 104, *Revenue Recognition*.

The Company derives its revenues from three basic types of transactions: sales of manufactured product, licensing of technology, and research and product development services performed for third parties. Due to differences in the substance of these transaction types, the transactions require, and the Company utilizes, different revenue recognition policies for each.

Product Sales: The Company recognizes revenue when title transfers to its customers, which is upon shipment of products. These shipments are made in accordance with sales commitments and related sales orders entered into with customers either verbally or in written form. The revenues associated with these transactions, net of appropriate cash discounts, product returns and sales reserves, are recorded upon shipment of the products.
<PAGE> 12

Licensing Revenues: Revenues earned under licensing or sublicensing contracts are recognized ratably over the life of the agreements. Advance payments by customers are initially recorded as deferred income on the Consolidated Balance Sheet and then recognized ratably over the life of the agreement or as contract obligations are completed.

Product Development Services*:* The Company establishes agreed upon product development agreements with its customers to perform product development services. Product development revenues will be recognized in accordance with the product development agreement upon the completion of the phases of development and when we have no future performance obligations relating to that phase of development. Revenue recognition requires the Company to assess progress against contracted obligations to assure completion of each stage. These payments are generally non-refundable and are reported as deferred until they are recognizable as revenue. If no such arrangement exists, product development fees are recognized ratably over the entire period during which the services are performed.

In making such assessments, judgments are required to evaluate contingencies such as potential variances in schedule and the costs, the impact of change orders, liability claims, contract disputes and achievement of contractual performance standards. Changes in total estimated contract cost and losses, if any, are recognized in the period they are determined. Billings on research and development contracts are typically based upon terms agreed upon by the Company and customer and are stated in the contracts themselves and do not always align with the revenues recognized by the Company. On occasions when

revenue recognized exceeds the milestone or progress billed to our customer, an "unbilled" receivable is recorded on our Consolidated Balance Sheet.

Market Risk

Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flow of the Company due to adverse changes in market prices and interest rates. The Company is exposed to market risk because of changes in interest rates.

The Company does not use derivative instruments. Changes in interest rates are not expected to have an adverse effect on the Company's financial condition or results of operations.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements and notes thereto listed in the accompanying index to financial statements (Item 13) are filed as part of this Annual Report and incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Vice President of Finance, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 as of the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Vice President of Finance concluded that the Company's disclosure controls and procedures are not completely effective because of material financial weaknesses as of the end of the period covered by this report with respect to timely communicating to them and other members of management responsible for preparing periodic reports all material information required to be disclosed in this report as it relates to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings. These weaknesses, which are disclosed below, were identified during our fiscal 2006 evaluation of internal control over financial reporting. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. The Company has determined that there are material weaknesses among its internal controls upon the discovery of theft within the Company. The Company is currently taking steps to revise our procedures to reduce the possibility of fraud occurring again in the future. In early 2007, the Company uncovered that some of its checks were forged by an employee, with its books reflecting that the amounts indicated on the checks were actually being paid to vendors (the "Theft"). The Theft totaled approximately $80,000 over 42 months. The Company has implemented controls to help prevent future occurrences. The failure to prevent the fraud or detect it earlier is a material weakness in the internal control over financial reporting and the Disclosure Controls and Procedures.

In a report to the Audit Committee of our Board of Directors and management of the Company, delivered by our independent audit firm, Amper, Politziner & Mattia P.C. on March 29, 2007 in connection with their audit of our financial results for the year ended December 31, 2006, two items were identified to be material weaknesses in our internal controls. A "material weakness" is a significant deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our material weaknesses were inadequate segregation of duties in the accounting/finance department and management overrides of controls. As a result of these material weaknesses, our internal control over financial reporting is ineffective. The Company is currently evaluating the steps necessary to alleviate these material weaknesses. We will be adding additional management oversight controls to alleviate the lack of segregation of duties. We believe the process of compliance with the Sarbanes-Oxley Regulation will help us further define those steps. In addition, we hope to hire an additional support person for the accounting department in the second quarter 2007. The impact of the above conditions did not affect the results of this period or any prior period.

Changes in Internal Control over Financial Reporting. There was no change in the Company's internal control over financial reporting that occurred during the period covered by this report on Form 10-KSB that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. However, the failure to prevent the Theft or detect it earlier is a material weakness in the internal control over financial reporting and the Disclosure Controls and Procedures.

Control Systems.

The Company's management cannot assure that its disclosure controls and procedures or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some person or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, the Company's disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of its disclosure control system are met and, as set forth above.

Sarbanes-Oxley 404 Compliance ("SOX 404"). It is anticipated that Management will begin conducting an evaluation of the effectiveness of the internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission sometime in the second quarter of 2007. The assessment process will require significant amounts of management time and resources, thus management plans to engage a consulting firm

to assist in the process.

ITEM 8B. OTHER INFORMATION

In December 2006, the Company acquired packaging and filling equipment from A & M Consultants, an entity owned by the spouse of Rajiv Mathur our current CEO. The purchase price of the equipment was $133,000 and was payable in 10 days. A finder's fee of $10,000 to A & M Consultants was included in the purchase price of the equipment.
<PAGE> 14

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTORS AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

A portion of the information required by this item is contained in part under the caption "Executive Officers of the Registrant" in Part I hereof, and the remainder is contained in the Company's Proxy Statement for the Company's 2007 Annual Meeting of Stockholders (the "2007 Proxy Statement") under the captions "PROPOSAL 1-Election of Directors-Nominees for Election as Directors," "Committees of the Board-Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" which are incorporated herein by this reference. Officers are elected on an annual basis and serve at the discretion of the Board of Directors. The Company expects to file the 2007 Proxy Statement no later than April 30, 2007.

The Company has adopted a code of ethics that applies to all directors, officers and employees of the Company and its subsidiaries. The Company's code of ethics is available at its web site at www.askigi.com.

ITEM 10. EXECUTIVE COMPENSATION

The information required by this item is contained in the Company's 2007 Proxy Statement under the captions "EXECUTIVE COMPENSATION-Employment Agreements," "EXECUTIVE COMPENSATION-Summary Compensation Table", "EXECUTIVE COMPENSATION-Stock Options", and "Director Compensation and Stock Options" and is incorporated herein by this reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

A portion of the information required by this item is contained in the Company's 2007 Proxy Statement under the caption "Beneficial Ownership of Common Stock" and is incorporated herein by this reference.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table includes information as of December 31, 2006 relating to the Company's 1999 Stock Incentive Plan, the 1999 Director Stock Option Plan and the 1998 Director Stock Plan, which comprises all of the equity compensation plans of the Company. The table provides the number of securities to be issued upon the exercise of outstanding options under such plans, the weighted-average exercise price of such outstanding options and the number of securities remaining available for future issuance under such equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options,	Weighted-average exercise price of outstanding options,	Number of securities remaining available for future issuance under

	warrants and rights	warrants and rights	equity compensation plans (excluding securities reflected in column(a))
	(a)(1)	(b)(1)	(c)(2)
Equity compensation plans approved by security holders	1,818,548	$1.56	1,321,995
Equity compensation plans not approved by security holders	-	-	-
Total	1,818,548	$1.56	1,321,995

(1) Includes information with respect to the 1989 Stock Option Plan, 1991 Stock Option Plan, 1999 Stock Incentive Plan, the 1999 Director Stock Option Plan, as such items do not apply to the 1998 Directors Stock Plan.

(2) Includes information with respect to the 1989 Stock option Plan, 1991 Stock Option Plan, 1999 Stock Incentive Plan, the 1999 Director Stock Option Plan, and the 1998 Directors Stock Plan.

<PAGE> 15

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained in the Company's 2007 Proxy Statement under the captions "Proposal-1 Election of Directors-Independence, "Propsal-1 Election of Directors-Committees of the Board" (first paragraph) and "Certain Relationships and Related Transactions" and is incorporated herein by this reference.

ITEM 13. EXHIBITS

(a) (1) Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheet, December 31, 2006

Consolidated Statements of Operations for the years ended December 31, 2006 and 2005.

Consolidated Statements of Cash Flows for the years ended December 31, 2006 and 2005.

Consolidated Statements of Stockholders' Equity and Comprehensive (Loss) for the years ended December 31, 2006 and 2005.

Notes to Consolidated Financial Statements

Schedules are omitted for the reason that they are either not applicable or not required or because the information required is contained in the financial statements or notes thereto.

Condensed financial information of the Registrant is omitted since there are no substantial amounts of "restricted net assets" applicable to the Company's consolidated subsidiaries.

(2) Exhibits Required to be Filed by Item 601 of Regulation S-B:

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed as part of this Annual Report on Form 10-KSB unless incorporated by reference as indicated.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is contained in the Company's 2007 Proxy Statement under the caption "Relationship with Independent Public Accountants" and is incorporated herein by this reference.
<PAGE> 16

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date:	IGI, Inc.
April 2, 2007	By: /s/ Rajiv Mathur Rajiv Mathur President and Chief Executive Officer

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

Signatures	Title	Date
/s/ Rajiv Mathur	President and Chief Executive Officer	April 2, 2007
Rajiv Mathur		
/s/ Frank Gerardi	Chairman of the Board	April 2, 2007
Frank Gerardi		
/s/ Carlene A. Lloyd	Vice President of Finance	April 2, 2007
Carlene A. Lloyd		
/s/ Stephen J. Morris	Director	April 2, 2007
Stephen J. Morris		
/s/ Terrence O'Donnell	Director	April 2, 2007
Terrence O'Donnell		

/s/ Sunil Pai	Director	April 2, 2007

Sunil Pai
<PAGE> 17

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
IGI, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of IGI, Inc. and Subsidiaries as of December 31, 2006, and the related consolidated statements of operations, cash flows, stockholders' equity and comprehensive (loss) for each of the years in the two year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the IGI, Inc. and Subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for each of the years in the two year period then ended, in conformity with U.S generally accepted accounting principles.

During the year ended December 31, 2006, the Company has changed its method of accounting for stock-based compensation.

/s/ AMPER, POLITZINER & MATTIA, P.C.

March 31, 2007
Edison, New Jersey
<PAGE> 18

IGI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
December 31, 2006
(in thousands, except share and per share information)

	2006

ASSETS		
Current assets:		
Cash and cash equivalents	$	619
Restricted cash		50
Accounts receivable, less allowance for doubtful accounts of $34		197
Licensing and royalty income receivable		91
Inventories		485
Prepaid expenses and other current assets		45
Assets of discontinued operations held for sale		350
Total current assets		1,837
Property, plant and equipment, net		2,396
License fee, net		900
Other assets		10
Total assets	$	5,143
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable- related party	$	1,145
Note payable		306
Accounts payable		505
Accrued expenses		417
Deferred income, current		400
Liabilities of discontinued operations		118
Total current liabilities		2,891
Deferred income, long term		59
Total liabilities		2,950
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value, 50,000,000 shares authorized; 15,056,516 shares issued and 13,090,776 shares outstanding		151
Additional paid-in capital		25,569
Accumulated deficit		(22,132)
Less treasury stock, 1,965,740 shares at cost		(1,395)
Total stockholders' equity		2,193
Total liabilities and stockholders' equity	$	5,143

The accompanying notes are an integral part of the consolidated financial statements.

<PAGE> 19

IGI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended December 31, 2006 and 2005
(in thousands, except share and per share information)

	2006	2005
Revenues:		
Sales, net	$ 1,787	$ 1,985
Licensing and royalty income	657	870
Research and development income	176	-
Total revenues	2,620	2,855
Costs and Expenses:		
Cost of sales	1,388	