

IGI INC
Form 10QSB/A
November 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-QSB/A
(Amendment No. 1)

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____
to _____

Commission File Number 001-08568

IGI, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other Jurisdiction of
incorporation or organization)

01-0355758
(I.R.S. Employer Identification No.)

105 Lincoln Avenue
Buena, New Jersey
(Address of Principal Executive Offices)

08310
(Zip Code)

(856) 697-1441

(Registrant's telephone number, including area code)

Check whether the issuer(1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the issuer's class of common stock, as of the latest practicable date:

Common Shares Outstanding at November 14, 2007 was 14,612,899.

Transitional Small Business Disclosure Format Yes [] No [X]

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Explanatory Note

This Amendment No. 1 to the Quarterly Report on Form 10-QSB for the fiscal quarter ended September 30, 2007 of the Company is being filed to modify Note 7 in the Financial Statements (Part I, Item I) and Legal Proceedings (Part II, Item I) of the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended September 30, 2007, which was filed with the Securities and Exchange Commission on November 14, 2007 (the "Original Filing"). These sections have been modified to clarify prior disclosure with respect to fined levied by the New Jersey Department of Environmental Protection.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), this Amendment No. 1 amends Part I, Item 1 and Part II, Item I in their entirety and contains new certifications pursuant to Rules 13a-15 and 15d-15 under the Exchange Act and the Sarbanes-Oxley Act of 2002. Other than as set forth above and the inclusion of new certifications pursuant to Rules 13a-15 and 15d-15 under the Exchange Act and the Sarbanes-Oxley Act of 2002, no other changes or amendments to the Original Filing are being made.

This Amendment No. 1 contains only the sections and exhibits to the Original Filing that are being amended, and those unaffected parts or exhibits are not included herein. This Amendment No. 1 continues to speak as of the date of the Original Filing and the Company has not updated the disclosure contained herein to reflect events that have occurred since the date of the Original Filing. Accordingly, this Amendment No. 1 should be read in conjunction with the Company's other filings made with the Securities and Exchange Commission, and is subject to updating and supplementing as provided in the periodic reports that the Company has filed and will file after the date of the Original Filing with the Securities and Exchange Commission.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

IGI, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except share and per share information) (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Product sales, net	\$ 520	\$ 537	\$ 1,865	\$ 1,393
R&D Revenues	252	1	520	164
R&D Revenue- related party	77	-	97	-

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Licensing and royalty income	156	120	444	499
	<u>1,005</u>	<u>658</u>	<u>2,926</u>	<u>2,056</u>
Total revenues				
Cost and expenses:				
Cost of sales	494	401	1,632	1,092
Selling, general and administrative expenses	469	447	1,651	1,324
Product development and research expenses	135	253	360	814
	<u>(93)</u>	<u>(443)</u>	<u>(717)</u>	<u>(1,174)</u>
Operating loss				
Interest expense (net)	(12)	(29)	(39)	(99)
Other income	-	-	64	-
	<u>(105)</u>	<u>(472)</u>	<u>(692)</u>	<u>(1,273)</u>
Loss from continuing operations				
Gain (loss) from discontinued operations	-	(38)	5	(58)
	<u>\$ (105)</u>	<u>\$ (510)</u>	<u>\$ (687)</u>	<u>\$ (1,331)</u>
Net loss				
Basic and Diluted Loss Per Share				
Continued operations net loss per share	\$ (.01)	\$ (.04)	\$ (.05)	\$ (.10)
Discontinued operations net income (loss) per share	-	-	-	-
	<u>\$ (.01)</u>	<u>\$ (.04)</u>	<u>\$ (.05)</u>	<u>\$ (.10)</u>
Net loss per share				
Weighted Average of Common Stock and Common Stock Equivalents Outstanding				
Basic and diluted	14,612,899	12,888,186	14,210,812	12,767,341

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

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IGI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share information)

September 30,
2007

December 31,
2006*

(unaudited)

ASSETS

Current assets:

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Cash and cash equivalents	\$	134	\$	619
Restricted cash		50		50
Accounts receivable, less allowance for doubtful accounts of \$33 in 2007 and \$ 34 in 2006		374		197
Accounts receivable- related party		51		-
Licensing and royalty income receivable		146		91
Inventories		522		485
Prepaid expenses and other current assets		81		45
Assets of discontinued operations held for sale		-		350
		<hr/>		<hr/>
Total current assets		1,358		1,837
Property, plant and equipment, net		2,379		2,396
License fee, net		825		900
Other assets		-		10
		<hr/>		<hr/>
Total assets	\$	4,562	\$	5,143
		<hr/>		<hr/>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Note payable - related party	\$	500	\$	1,145
Note payable		-		306
Accounts payable		428		505
Accrued expenses		361		417
Deferred income, current		191		400

Liabilities of discontinued operations	-	118
	<hr/>	<hr/>
Total current liabilities	1,480	2,891
Deferred income	46	59
	<hr/>	<hr/>
Total liabilities	1,526	2,950
	<hr/>	<hr/>
Stockholders' equity:		
Common stock \$.01 par value, 50,000,000 shares authorized; 16,578,639 and 15,056,516 shares issued in 2007 and 2006, respectively	166	151
Additional paid-in capital	27,084	25,569
Accumulated deficit	(22,819)	(22,132)
Less treasury stock, 1,965,740 shares at cost	(1,395)	(1,395)
	<hr/>	<hr/>
Total stockholders' equity	3,036	2,193
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 4,562	\$ 5,143
	<hr/>	<hr/>

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

* Derived from the audited December 31, 2006 financial statements

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IGI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

Nine months ended September 30,

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	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net loss	\$ (687)	\$ (1,331)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation and amortization	172	201
Impairment charge on assets of discontinued operations	-	38
Bad debt expense	-	1
Recognition of deferred income	(378)	(72)
Amortization of license fee	75	75
Stock option compensation expense	231	19
Gain on sale of assets of discontinued operations	(5)	-
Changes in operating assets and liabilities:		
Accounts receivable	(228)	(119)
Inventories	(37)	(202)
Licensing and royalty income receivable	(55)	42
Prepaid expenses and other assets	(36)	(34)
Accounts payable and accrued expenses	(132)	455
Income taxes payable	-	(3)
Deferred income	156	139
Net change in assets of discontinued liabilities	-	7
	<u>(924)</u>	<u>(784)</u>
Net cash used in operating activities		
	<u>(924)</u>	<u>(784)</u>
Cash flows from investing activities:		
Capital expenditures	(168)	-
Proceeds from sale of assets of discontinued operations	260	-
	<u>92</u>	<u>-</u>
Net cash provided by investing activities:		
	<u>92</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from private placement of common stock, net of expenses	1,298	100
Repayment of note payable, related party	(1,145)	-
Repayment of note payable	(306)	-
Proceeds from exercise of common stock options	-	340
Borrowing from short term notes payable	500	-
	<u>347</u>	<u>440</u>
Net cash provided by financing activities		
	<u>347</u>	<u>440</u>
Net decrease in cash and cash equivalents	(485)	(344)

Cash and equivalents at beginning of period	619	365
	<hr/>	<hr/>
Cash and equivalents at end of period	\$ 134	\$ 21
	<hr/>	<hr/>
Supplemental cash flow information:		
Cash payments for interest	\$ 201	\$ -
Cash payment for taxes	5	-

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

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IGI, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the U.S. generally accepted accounting principals for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principals for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006. The condensed consolidated balance sheet as of September 30, 2007 has been derived from those audited consolidated financial statements. Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

1. Organization

IGI, Inc. ("IGI" or the "Company"), a Delaware corporation, operating in the State of New Jersey, is primarily engaged in the development and manufacturing of topical semi solid and liquid products for pharmaceutical, cosmeceutical, and cosmetics companies with or without its proprietary encapsulation technology, Novasome®.

In December 2006, the Company purchased three high-speed filling lines to enable us to provide filling and packaging services to our current and prospective customers. The Company will continue purchasing additional equipment throughout 2007 to complete this operation. We are also providing product development and analytical services to our customers now in addition to our manufacturing and packaging services.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results may differ from these estimates. The significant estimates and assumptions made by the Company are in the areas of revenue recognition, inventory obsolescence, allowance for doubtful accounts, environmental accrual, valuation allowances for deferred tax assets, and valuation of equity instruments issued under

Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" ("SFAS 123R").

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 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 generally 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.

Licensing Revenues

: Revenues earned under licensing or sublicensing contracts are recognized ratably over the lives 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.

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IGI, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Continued

Product Development Services

: The Company provides product development services to its customers upon the execution of a product development agreement. Product development revenues are recognized upon the completion of each phase of development as outlined in the product development agreement. 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 agreement 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. Billings on product 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.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, the beginning of our 2008 fiscal year. The Company is currently evaluating what effect, if any, the adoption of SFAS No. 157 will have on the Company's consolidated results of operations and financial position.

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.

In June 2007, the FASB issued EITF Issue No. 07-03, *Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* ("EITF 07-03"). EITF 07-03 provides guidance on whether non-refundable advance payments for goods that will be used or services that will be performed in future research and development activities should be accounted for as research and development costs or deferred and capitalized until the goods have been delivered or the related services have been rendered. EITF 07-03 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating what effect, if any, the adoption of EITF 07-03 will have on the Company's consolidated results of operations and financial position.

3. Inventories

Inventories are valued at the lower of cost, using the first-in, first-out ("FIFO") method, or market. Inventories at September 30, 2007 and December 31, 2006 consist of:

	September 30, 2007	December 31, 2006
	(amounts in thousands)	
Finished goods	\$251	\$241
Work in progress	13	18
Raw materials	258	226
	<hr/>	<hr/>
Total	\$522	\$485
	<hr/>	<hr/>

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IGI, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Continued

4. Stock-Based Compensation

Stock Incentive Plans

The Company currently has a stock-based compensation plan for its Board of Directors, the 1999 Director Stock Option Plan (the "Director Plan") in place. In accordance with the Director Plan, each non-employee member of the Board is granted an option once a year as compensation for services rendered to the Company for that year. The options vest over a 12-month period. Each Director receives an option for 15,000 shares with an additional grant to each committee Chairman. The Company also provides each director with an amount of shares as compensation for each board meeting they attend throughout the year in accordance with the 1998 Director Stock Plan.

The Company also has a stock-based incentive plan in place for its eligible employees, officers, consultants, independent advisors and non-employee directors called the 1999 Stock Incentive Plan (the "Plan"). The Plan permits the grant of share options and shares for up to 3,200,000 shares of our common stock, of which, 1,349,500 shares were outstanding and 1,006,200 were available at September 30, 2007. Option awards are granted with an exercise price equal to or greater than the closing sale price per share of the Company's common stock on the AMEX Stock Exchange on the option grant date. Although the terms of any award vary, options awards generally vest based upon four years of continuous service and have 10-year contractual terms.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing formula that uses assumptions noted in the following table. Expected volatilities and risk-free interest rates are based upon the expected life of the grant. The interest rates used are the U.S. Treasury yield curve in effect at the time of the grant.

For the nine months ended
September 30, 2007

Expected volatility	74.22%
Expected term (in years)	5-6 years
Risk-free rate	4.56%-4.60%
Expected dividends	0%

A summary of option activity under the Plan and the Director Plan as of September 30, 2007 and changes during the nine month period ended are presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding as of 1/1/2007	1,818,548	\$1.56
Issued	573,750	\$1.04
Exercised	-	-
Forfeited	(19,000)	\$.95
<hr style="border: 1px solid black;"/>		
Outstanding as of 9/30/2007	2,373,298	\$1.44
Exercisable as of 9/30/2007	1,799,548	\$1.57
<hr style="border: 1px solid black;"/>		

Based upon application of the Black-Scholes option-pricing formula described above, the weighted- average grant-date fair value of options granted during the nine months ended September 30, 2007 was \$.72. There were no options granted during the three months ended September 30, 2007.

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IGI, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Continued

The following table summarizes information regarding options outstanding and exercisable at September 30, 2007:

Outstanding:

Range of Exercise Prices	Stock options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$0.50 to \$1.00	347,250	\$0.74	6.38
\$1.01 to \$2.00	1,581,548	\$1.32	6.31
\$2.01 to \$3.00	414,500	\$2.31	4.92
\$3.01 to \$4.00	30,000	\$3.75	0.25
Total	2,373,298	\$1.44	6.00

Exercisable:

Range of Exercise Prices	Stock options Exercisable	Weighted Average Exercise Price
\$0.50 to \$1.00	332,250	\$0.73
\$1.01 to \$2.00	1,022,798	\$1.48
\$2.01 to \$3.00	414,500	\$2.31
\$3.01 to \$4.00	30,000	\$3.75
Total	1,799,548	\$1.57

As of September 30, 2007, the intrinsic value of the options outstanding is \$91,000 and the intrinsic value of the options exercisable is \$89,000. As of September 30, 2007, there was \$273,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over the remaining vesting periods of the options granted.

5. Income Taxes

Effective January 1, 2007, the Company adopted 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. The adoption did not have an effect on the consolidated financial statements.

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IGI, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

As a result of our continuing tax losses, we have historically not paid income taxes and have recorded a full valuation allowance against our net deferred tax asset. Therefore, we have not recorded a liability for unrecognized tax benefits prior to adoption of FIN 48 and there was no adjustment from the implementation. There continues to be no liability related to unrecognized tax benefits at September 30, 2007.

The tax years 2003-2006 remain open to examination by the major taxing jurisdictions to which we are subject.

6. Contractual Agreements

On December 12, 2005, the Company extended its license agreement for an additional ten years with Novavax, Inc. for a fee of \$1,000,000. This extension entitles the Company 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") thru 2015. This payment is being amortized ratably over the ten-year period. The Company recorded amortization expense of \$75,000 related to this agreement for each of the nine month periods ended September 30, 2007 and 2006.

On August 21, 2007, the Company signed a Marketing, Product Development, Manufacturing and Supply Agreement with Pharmachem Laboratories, Inc. ("Pharmachem"). Pharmachem is a major manufacturer and supplier of value added cosmetic and nutritional ingredients to the Cosmetic and Food industry and owns 1.5 million shares of IGI's common stock. Under this agreement, IGI will develop Novasome® encapsulated ingredients and finished products for Pharmachem. IGI will manufacture and supply these products to Pharmachem in bulk or finished unit form for exclusive sales to their customers. Pharmachem will guarantee minimum R&D and manufacturing revenues to IGI for such services and market exclusivity. The Company recorded revenue of \$77,000 related to this agreement for the nine month period ended September 30, 2007.

On August 23, 2007, the Company signed a new Exclusivity, Manufacturing and Supply Agreement with Dermworx, Incorporated. This agreement supersedes and replaces the earlier agreement, dated October 11,

2006, between Dermworx and IGI. As per the new Agreement, IGI recognized the \$250,000 payment received in 2006 that was previously deferred, as R&D revenue for the nine month period ended September 30, 2007. The revenue was received from Dermworx for the product development services provided to Dermworx to complete development, stability, and other relevant testing for commercialization of a 2% Salicylic Acid Novasome® product. IGI will receive manufacturing revenues for this product starting in the fourth quarter of 2007. Under this Agreement, IGI will grant Dermworx the exclusive rights to market and sell the Salicylic Acid Novasome® product in North, Central and South America, and the United Kingdom. To maintain exclusivity, Dermworx will guarantee IGI minimum royalties each year of the product sale period. IGI has also granted Dermworx a right of first refusal, effective until January 31, 2008, for the development of two (2) additional Salicylic Acid Novasome® formulations, one for the treatment of Psoriasis and another for the treatment of Seborrheic Dermatitis.

7. Legal and US Regulatory Proceedings

As a result of violations of New Jersey environmental laws at the Company's facilities in Buena, New Jersey, the New Jersey Department of Environmental Protection ("DEP") issued Notices of Violations to the Company in April 2000, which amounted to \$215,000. The Company established and completed a disposal and clean up plan. The Company contested the fine. In March 2006, the New Jersey Office of Administrative Law ("ALO") ordered that the fine be reduced to \$34,000, which was offset by a \$40,000 credit the Company had available to be applied toward any DEP fine as a result of a settlement of a criminal proceeding arising out of the violations of the New Jersey environmental laws. The DEP Commissioner refused to accept the order of the ALO and reinstated the original fine. The Company subsequently appealed the DEP Commissioner's decision to the New Jersey Superior Court, Appellate Division. In June 2007, the court determined that the DEP Commissioner ruled appropriately and affirmed the original fine of \$215,000, which will also be offset the \$40,000 credit mentioned above, thereby reducing the amount of the balance of the unpaid fine to \$175,000.

Management of the Company and its counsel has subsequently met with and are currently negotiating this matter with the DEP. As of the date of this report, it is uncertain how the Company may be able to resolve this matter and it is not possible to reasonably estimate the amount of the fine that the Company will ultimately be assessed and therefore, no accrual has been recorded.

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IGI, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Continued

Subsequently, the Company was informed in the third quarter of 2007 that the DEP Commissioner has accepted the appellate judge's decision but has reinstated the original fines that were issued to the Company. Management of the Company will continue to negotiate with the DEP and is uncertain what the outcome will be related to these NOV's. It is not possible to reasonably estimate an amount, if any, of additional fines at the date of this report.

8. Stock Subscription Agreement

On February 6, 2007 the Registrant and Pharmachem entered into a subscription agreement pursuant to which the Registrant agreed to sell to Pharmachem 1,500,000 shares ("Shares") of its common stock, \$.01 par value ("Common Stock") at \$1 per share for gross proceeds of \$1,500,000. Pharmachem was granted certain piggyback registration rights with respect to the shares purchased. The American Stock Exchange approved this transaction and shares were issued on March 13, 2007. The Company used the proceeds from this equity investment to repay outstanding debts and accrued interest to Univest Management LLC; an entity controlled

by Frank Gerardi, former President and CEO of the Company and a significant shareholder. In connection with the transaction, the Company paid \$112,500 in cash, issued 22,139 shares of common stock and a warrant to purchase 150,000 shares of common stock, expiring March 7, 2009, exercisable at \$1.00 per share in fees to Landmark Financial Corporation. The Company incurred \$10,000 of legal fees, \$112,500 of commission, and \$34,000 in American Stock Exchange additional listing fees in connection with this transaction for net proceeds to the Company of \$1,343,500.

9. Notes Payable- Related Party

On December 12, 2005, the Company received \$1,000,000 in the form of a short-term note payable from Univest Management, LLC, a company owned by Frank Gerardi, former President and CEO of the Company and a significant shareholder of the Company. The funds from this note were used to satisfy our obligation to renew our license fee with Novavax, Inc. for use of the Novasome® Technologies for an additional ten year period. The note and all accrued interest became due on the earlier of March 31, 2007 or when a sale leaseback of the land and building closed, with 30% interest per annum through February 1, 2006 and 12% interest per annum through October 1, 2006 and 10% interest per annum thereafter. The note was collateralized by a mortgage on real property owned by the Company. The Company accrued \$18,000 and \$120,000 of interest related to this note for the nine months ended September 30, 2007 and 2006 respectively. The note and all accrued interest was paid in full on March 8, 2007 with the proceeds from the Pharmachem equity transaction consisting of \$1,000,000 in principal balance and \$163,000 of accrued interest (See Note 7).

On January 30, 2007, IGI, Inc. entered into a revolving \$1,000,000 secured line of credit agreement ("Credit Agreement") with Pinnacle Mountain Partners, LLC, ("Pinnacle"), a company owned by Dr. and Mrs. Hager, significant shareholders of the Company, for a term of eighteen months. Loans under the Credit Agreement bear interest at prime (7.75% at September 30, 2007), plus 1.5% and are secured by assets of the Company (other than real property). All accrued and unpaid interest is payable monthly in arrears on the first of each month. The Company has borrowed \$500,000 against this line of credit as of September 30, 2007. On May 10, 2007, Mrs. Hager was voted on to the Board of Directors of the Company.

Prior to signing the letter of credit with Pinnacle, the Company terminated the \$1,000,000 line of credit agreement ("Agreement") with Pharmachem. All monies borrowed under that agreement plus accrued interest were paid to Pharmachem on January 29, 2007. The terms of the agreement were substantially the same as the Pinnacle credit agreement except for the term of the agreement, which was twelve months. Pharmachem owns more than 10% of the Company, see Note 7 above, and is considered a related party.

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IGI, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Continued

10 Discontinued Operations

On July 10, 2006, the Company's Board of Directors along with management accepted a plan to sell the equipment related to the Metal Plating Division to a third party. This reporting segment, the Metal Plating Division, is classified as discontinued operations for all periods presented. Frank Gerardi, the Company's former President and CEO, as well as a major IGI stockholder, has personally invested \$350,000 in UCT, which represented less than a 1% ownership interest in UCT at the time it was made.

During the second quarter of 2007, the Company consummated the sale of all of the equipment related to the Metal Plating operation to UCT. The selling price of the equipment was \$378,000, which consisted of

\$260,000 in cash net of \$118,000 owed to UCT by the Company. As a result of the aforementioned, the Company recorded a \$5,000 gain on the sale of the equipment.

A summary of the data related to the Company's discontinued operations for the periods ended September 30, 2007 and September 30, 2006 appear below: (amounts in thousands)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Discontinued operations				
Summary Income Statement				
Product sales	\$ -	\$ -	\$ -	\$ -
Cost of sales	-	-	-	(20)
Impairment charge related to fixed assets	-	(38)	-	(38)
Gain on sale of assets	-	-	5	-
Gain (loss) from discontinued operations	\$ -	\$(38)	\$ 5	\$(58)

11. Related Party Transactions

The Company has signed an agreement with Pharmachem, a significant shareholder, to develop Novasome® based products for Pharmachem to market to third party customers. (See Note 5)

For the nine months period ended September 30, 2007, the Company recognized \$77,000 of R&D revenues from Pharmachem and has a \$51,000 accounts receivable balance at September 30, 2007 that will be received in the normal course of business.

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IGI, INC. AND SUBSIDIARIES PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

On April 6, 2000, officials of the New Jersey Department of Environmental Protection ("DEP") inspected the Company's storage site in Buena, New Jersey, and issued Notices of Violation ("NOV's") relating to the storage of waste materials in a number of trailers at the site. The Company established a disposal and cleanup schedule and completed the removal of materials from the site. In March 2006, the Company received a judge's decision of a fine in the amount of \$35,000 in respect to the NOV's the Company received from the DEP. Due to the criminal settlement that was reached between the Company and the DEP in 2002, the Company had a credit of \$40,000 to be used against any fines determined as a result of the civil matter, therefore, the Company did not have to pay any money to the DEP for the settlement amount. As a result, the balance accrued for the NOV was reversed and is reflected in other income in the amount of \$24,000 for the nine month period ended September 30, 2006. The Company was notified in June 2006 that the DEP appealed the judge's decision in the

appellate court. Subsequently, the Company was informed in the third quarter of 2007 that the DEP Commissioner has accepted the appellate judge's decision but has reinstated the original fines that were issued to the Company. Management of the Company will continue to negotiate with the DEP and is uncertain what the outcome will be related to these NOV's. It is not possible to reasonably estimate an amount, if any, of additional fines at the date of this report.

ITEM 6. Exhibits

- 31.1 Certification of the Chairman and Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Vice President of Finance Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as enacted under Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Vice President of Finance pursuant to 18 U.S.C. Section 1350, as enacted under Section 906 of the Sarbanes-Oxley Act of 2002.

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IGI, INC. AND SUBSIDIARIES

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.

IGI, Inc.
(Registrant)

Date: November 29, 2007

By: /s/ Rajiv Mathur

Rajiv Mathur
Chairman and Chief Executive Officer

Date: November 29, 2007

By: /s/ Carlene Lloyd

Carlene Lloyd
Vice President, Finance

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