IGI INC
Form 10-Q/A
May 14, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended	Commission File No.
June 30, 2003	001-08568

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

Delaware	01-0355758
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Lincoln Avenue, Buena, NJ	08310
(Address of principal executive offices)	(Zip Code)

856-697-1441
Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ___ No X

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

Common Shares Outstanding at July 24, 2003 is 11,396,865.

EXPLANATORY STATEMENT

Prior to filing its Form 10-K for the fiscal year ended December 31, 2003, IGI, Inc. was informed by Johnson & Johnson Consumer Products, Inc. ("J&J") that there was an error in the calculation of the 2003 royalty due to the Company by J&J. The correction of the error resulted in a reduction of revenues, with a corresponding impact on net loss, of $42,000 in the second quarter of 2003 and $51,000 in the third quarter of 2003. The impact of the J&J error on the first quarter of 2003 was immaterial, and has been included in the second quarter adjustment.

Except as otherwise specifically noted, all information contained herein is as of June 30, 2003 and does not reflect any events or changes in information that may have occurred subsequent to that date.

ITEM 1. Financial Statements

PART I FINANCIAL INFORMATION

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

	Three months ended June 30,		Six months ended June 30	
	2003 (as restated, see Note 2)	2002	2003 (as restated, see Note 2)	
Revenues:				
Product sales, net	$ 718	$ 889	$ 1,523	$
Licensing and royalty income	126	175	329	
Total revenues	844	1,064	1,852	
Cost and expenses:				
Cost of sales	355	359	685	
Selling, general and administrative expenses	852	671	1,352	
Product development and research expenses	157	143	303	
Operating loss	(520)	(109)	(488)	
Interest income (expense)	2	(119)	8	
Other income, net	-	-	-	
Loss on early extinguishment of debt	-	(2,654)	-	
Loss from continuing operations before provision for income taxes	(518)	(2,882)	(480)	
Provision for income taxes	-	-	2	
Loss from continuing operations	(518)	(2,882)	(482)	

Discontinued operations:				
Income (loss) from operations of discontinued business	-	(521)	-	
Gain on disposal of discontinued business	169	12,468	169	
Net income (loss)	(349)	9,065	(313)	
Mark to market for detachable stock warrants	-	229	-	
Net income (loss) attributable to common stock	$ (349)	$ 9,294	$ (313)	$
Basic and Diluted Earnings (Loss) Per Common Share				
Continuing operations	$ (.05)	$ (.24)	$ (.04)	$
Discontinued operations	.02	1.06	.01	
Net income (loss) per share	$ (.03)	$ .82	$ (.03)	$
Weighted Average of Common Stock and Common Stock Equivalents Outstanding Basic and diluted	11,400,449	11,300,454	11,392,063	11,2

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

3

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

	June 30, 2003 (unaudited) (as restated, see Note 2)	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,572	$ 1,999
Accounts receivable, less allowance for doubtful accounts of $21 and $35 in 2003 and 2002, respectively	422	460
Licensing and royalty income receivable	104	166
Inventories	175	209
Prepaid expenses and other current assets	328	146
Total current assets	2,601	2,980
Property, plant and equipment, net	2,786	2,862
Other assets	79	87
Total assets	$ 5,466	$ 5,929

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 18	$ 18
Accounts payable	82	115
Accrued payroll	68	71
Other accrued expenses	517	551
Income taxes payable	10	16
Deferred revenue	145	145
Total current liabilities	840	916
Deferred revenue	273	340
Long-term debt	166	164
Total liabilities	1,279	1,420
Stockholders' equity:		
Common stock $.01 par value, 50,000,000 shares authorized; 13,321,705 and 13,262,657 shares issued in 2003 and 2002, respectively	133	133
Additional paid-in capital	23,674	23,644
Accumulated deficit	(18,266)	(17,953)
Less treasury stock, 1,924,840 and 1,878,640 shares at cost in 2003 and 2002, respectively	(1,354)	(1,315)
Total stockholders' equity	4,187	4,509
Total liabilities and stockholders' equity	$ 5,466	$ 5,929

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

4

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

	Six months ended June 30,	
	2003 (as restated, see Note 2)	2002
Cash flows from operating activities:		
Net income (loss)	$ (313)	$ 8,940
Reconciliation of net income (loss) to net cash used in operating activities:		
Gain on disposal of discontinued operations	(169)	(12,468)
Depreciation and amortization	128	182
Gain on sale of marketable securities	-	(58)
Write down of EVSCO facility to net realizable value	-	632
Amortization of deferred financing costs and debt discount	-	275
Loss on early extinguishment of debt	-	2,654

Provision for accounts receivable and inventories	7	11
Recognition of deferred revenue	(67)	(67)
Interest expense related to subordinated note agreement	-	41
Stock-based compensation expense - Directors' stock issuance	26	32
Changes in operating assets and liabilities:		
Accounts receivable	51	(153)
Inventories	14	647
Receivables due under licensing and royalty agreements	62	95
Prepaid expenses and other assets	(7)	44
Accounts payable and accrued expenses	(70)	(2,295)
Income taxes payable	(6)	(4)
Discontinued operations - working capital changes and non-cash charges	(6)	(8)
Net cash used in operating activities	(350)	(1,500)
Cash flows from investing activities:		
Capital expenditures	(45)	(46)
Proceeds from sale of assets	-	550
Proceeds from sale of marketable securities	-	58
Decrease (increase) in other assets	1	(46)
Proceeds from sale of discontinued operations, net of direct costs	-	16,700
Net cash provided by (used in) investing activities	(44)	17,216
Cash flows from financing activities:		
Borrowings under revolving credit agreement	-	5,958
Repayment of revolving credit agreement	-	(8,284)
Prepayment fees on paydown of debt	-	(273)
Repayment of debt	-	(9,516)
Borrowings from EDA loan	11	182
Repayments of EDA loan	(9)	(6)
Proceeds from exercise of common stock options and purchase of common stock	4	16
Purchase of treasury shares	(39)	-
Net cash used in financing activities	(33)	(11,923)
Net increase (decrease) in cash and equivalents	(427)	3,793
Cash and equivalents at beginning of period	1,999	10
Cash and equivalents at end of period	$ 1,572	$ 3,803

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

5

IGI, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared by IGI, Inc. without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

Certain information in footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the SEC, although the Company believes that the disclosures contained herein are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 10-K Annual Report").

Certain previously reported amounts have been reclassified to conform with the current period presentation.

2. Restatement

Prior to filing its Form 10-K for the fiscal year ended December 31, 2003, the Company was informed by Johnson & Johnson Consumer Products, Inc. ("J&J") that there was an error in the calculation of the 2003 royalty due to the Company by J&J. The correction of the error resulted in a reduction of revenues, with a corresponding impact on net loss, of $42,000 in the second quarter of 2003. The impact of the J&J error on the first quarter of 2003 was immaterial, and has been included in the second quarter adjustment. The consolidated statements of operations for the three and six months ended June 30, 2003, the consolidated statement of cash flows for the six months ended June 30, 2003, and the consolidated balance sheet as of June 30, 2003 have been restated to reflect the adjustment to royalty income. The following tables set forth the line items impacted in the consolidated statements of operations, consolidated balance sheet and the consolidated statement of cash flows.

	For the three months ended June 30, 2003	
Selected statement of operations data:	As originally reported	As restated
Licensing and royalty income	$ 168	$ 126
Total revenues	886	844
Operating loss	(478)	(520)
Loss from continuing operations before provision for income taxes	(476)	(518)
Loss from continuing operations	(476)	(518)
Net loss	(307)	(349)
Net loss attributable to common stock	(307)	(349)
Basic and Diluted Earnings (Loss) per Common Share		
Continuing operations	$(.04)	$(.05)
Discontinued operations	.01	.02
Net income (loss) attributable to common stock	$(.03)	$(.03)

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

Selected statement of operations data:	For the six months ended June 30, 2003 As originally reported	As restated
Licensing and royalty income	$ 371	$ 329
Total revenues	1,894	1,852
Operating loss	(446)	(488)
Loss from continuing operations before provision for income taxes	(438)	(480)
Loss from continuing operations	(440)	(482)
Net loss	(271)	(313)
Net loss attributable to common stock	(271)	(313)
Basic and Diluted Earnings (Loss) per Common Share		
Continuing operations	$ (.04)	$ (.04)
Discontinued operations	.02	.01
Net income (loss) attributable to common stock	$ (.02)	$ (.03)

Selected balance sheet data:	As of June 30, 2003 As originally reported	As restated
Licensing and royalty income receivable	$ 146	$ 104
Total current assets	2,643	2,601
Total assets	5,508	5,466
Accumulated deficit	(18,224)	(18,266)
Total stockholders' equity	4,229	4,187
Total liabilities and stockholders' equity	5,508	5,466

Selected statement of cash flows data:	For the six months ended June 30, 2003 As originally reported	As restated
Net loss	$ (271)	$ (313)
Receivables due under licensing and royalty agreements	20	62

3. Discontinued Operations

On May 31, 2002, the shareholders of the Company approved, and the Company consummated, the sale of the assets and transfer of the liabilities of the Companion Pet Products division, which marketed companion pet care related products. The Companion Pet Products division, which is presented as a discontinued operation, incurred a loss from operations of $521,000 and a gain of $12,468,000 from the sale of the Companion Pet Products division for the three months ended June 30, 2002. During the three months ended June 30, 2003, the Company received an insurance settlement of $169,000, net of legal costs, for damages incurred by the Company as a result of the heating oil leak at the Companion Pet Products site (see Note 7). For the six months ended June 30, 2002, the Company incurred a loss from continuing operations of $401,000 and a $12,468,000 gain on the sale of the Companion Pet Products division. A $169,000 profit from the settlement mentioned above was realized for the comparable period in 2003.

4. Debt

In the prior year, the Company received a $246,000 loan commitment from NJEDA to provide partial funding for the costs of investigation and remediation of the environmental contamination discovered at the Companion Pet Products facility in March 2001. The loan requires monthly principal payments over a term of ten years at a rate of interest of 5%. The Company has received funding of $207,000 through June 30, 2003.

7

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

5. Inventories

Inventories are valued at the lower of cost, using the first-in, first-out ("FIFO") method, or market. Inventories at June 30, 2003 and December 31, 2002 consist of:

	June 30, 2003	December 31, 2002
	(amounts in thousands)	
Finished goods	$ 19	$ 52
Raw materials	156	157
Total	$175	$209

6. Stock-Based Compensation

Compensation costs attributable to stock option and similar plans are recognized based on any difference between the quoted market price of the stock on the date of grant over the amount the employees and directors are required to pay to acquire the stock (the intrinsic value method). No stock-based employee or director compensation cost is reflected in net income (loss) for options that have been granted, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Since the Company uses the intrinsic value method, it makes pro forma disclosures of net income (loss) and net income (loss) per share as if the fair-value based method of accounting had been applied.

If compensation cost for all grants under the Company's stock option plans had been determined based on the fair value at the grant date consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," the Company's net income (loss) and net income (loss) per share would have changed to the pro forma amounts indicated below:

	Three months ended June 30,		Six months ended June 30,	
	2003 (as restated)	2002	2003 (as restated)	2002
Net income (loss) - as reported	$(349)	$9,294	$(313)	$8,807
Deduct: Total stock-based employee and directors compensation expense determined under fair value based method	(10)	(285)	(15)	(416)
Net income (loss) - pro forma	$(359)	$9,009	$(328)	$8,391
Income (loss) per share-as reported Basic and diluted	$(.03)	$ .82	$(.03)	$ .78
Income (loss) per share - pro forma Basic and diluted	$(.03)	$ .80	$(.03)	$ .74

7. Regulatory Proceedings and Legal Proceedings

On April 6, 2000, officials of the New Jersey Department of Environmental Protection 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. The Company continues to discuss with the authorities a resolution of any potential assessment under the NOV's and has accrued the estimated expense of the penalties that may be assessed under such NOV's.

On March 2, 2001, the Company discovered the presence of environmental contamination resulting from a heating oil leak at its Companion Pet Products site. The Company immediately notified the New Jersey Department of Environmental Protection and the local authorities, and hired a certified environmental 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. A further update was performed in December 2002 and the final estimated cost was increased to $620,000, of which $149,000 remains accrued as of June 30, 2003. It is currently anticipated that the majority of the remediation will be completed by the end of the summer of 2003. Subsequently, there will be periodic testing and removal performed, which is projected to span over the next five years. The estimated cost of such future monitoring is included in the accrual.

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

8. Recent Pronouncements

The Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections", effective January 1, 2003. As a result of adoption, the Company's loss from early extinguishment of debt realized in the second quarter of 2002 has been presented within continuing operations, rather than presented as an extraordinary item.

The Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" effective January 1, 2003. SFAS No. 146 addresses the financial accounting and reporting of expenses related to restructurings initiated after 2002, and applies to costs associated with an exit activity (including a restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS No. 146, a company will record a liability for a cost associated with an exit or disposal activity when the liability is incurred and can be measured at fair value. The provisions of SFAS No. 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002, and therefore did not have an impact on the Company's consolidated financial statements.

IGI, INC. AND SUBSIDIARIES

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Prior to filing its Form 10-K for the fiscal year ended December 31, 2003, IGI, Inc. was informed by J&J that there was an error in the calculation of the 2003 royalty due to the Company by J&J. The correction of the error resulted in a reduction of revenues, with a corresponding impact on net loss, of $42,000 in the second quarter of 2003 and $51,000 in the third quarter of 2003. The impact of the J&J error on the first quarter of 2003 was immaterial, and has been included in the second quarter adjustment.

Except as otherwise specifically noted, all information contained herein is as of June 30, 2003 and does not reflect any events or changes in information that may have occurred subsequent to that date.

The following discussion and analysis may contain forward-looking statements. Such statements are subject to certain risks and uncertainties, including without limitation those discussed below or in the Company's 2002 10-K Annual Report, that could cause actual results to differ materially from the Company's expectations. See "Factors Which May Affect Future Results" below and in the 2002 10-K Annual Report. Readers are cautioned not to place undue reliance on any forward-looking statements, as they reflect management's analysis as of the date hereof. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Results of Operations

Three months ended June 30, 2003 compared to June 30, 2002

The Company had a net loss attributable to common stock of $349,000, or ($.03) per share, for the quarter ended June 30, 2003 compared to net income attributable to common stock of $9,294,000, or $.82 per share, for the quarter ended June 30, 2002.

Total revenues for the quarter ended June 30, 2003 were $844,000, compared to $1,064,000 for the quarter ended June 30, 2002. The decrease in revenues was primarily due to lower product sales to Estee Lauder and a decrease in J&J royalty income offset by increased product sales to Vetoquinol and new customers.

As a percentage of product sales, cost of sales increased from 40% in the quarter ended June 30, 2002 to 49% in the quarter ended June 30, 2003. The resulting decrease in gross profit from 60% in the quarter ended June 30, 2002 to 51% in the quarter ended June 30, 2003 is due to the change in mix to lower gross profit products and underabsorbed fixed costs.

Selling, general and administrative expenses increased $181,000, or 27%, from $671,000 in the quarter ended June 30, 2002. As a percentage of revenues, these expenses were 63% of revenues in the second quarter of 2002 compared to 101% in the second quarter of 2003. The increase is primarily due to a $202,000 severance expense accrued in the quarter ended June 30, 2003 for the cost of the benefits to be provided by the Company under a severance package to the Company's current President and Chief Executive Officer upon his resignation from office.

Product development and research expenses increased $14,000, or 10%, compared to the quarter ended June 30, 2002. The increase is a result of additional projects that are being worked on for existing and potential new customers.

Interest expense decreased $121,000 from interest expense of $119,000 in the quarter ended June 30, 2002 to interest income of $2,000 in the quarter ended June 30, 2003. The decrease was a result of the pay-down of debt in the prior year using the proceeds from the sale of the Companion Pet Products division.

Discontinued operations in the quarter ended June 30, 2002 consisted of a loss of $521,000 from operations from the Companion Pet Products division, offset by the gain of $12,468,000 from the sale of the Companion Pet Products division, which occurred on May 31, 2002. The $169,000 of income from discontinued operations in the quarter ended June 30, 2003 is a result of an insurance settlement, net of legal costs, received for the damages arising from the heating oil leak at the Company's Companion Pet Products site.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Continued)

Six months ended June 30, 2003 compared to June 30, 2002

The Company had a net loss attributable to common stock of $313,000, or ($.03) per share, for the six months ended June 30, 2003 compared to net income attributable to common stock of $8,807,000, or $.78 per share, for the six months ended June 30, 2002.

Total revenues for the six months ended June 30, 2003 were $1,852,000, which represents a decrease of $275,000, or 13%, from revenues of $2,127,000 for the six months ended June 30, 2002. The decrease in revenues was primarily due to lower product sales to Estee Lauder and two other customers and a decrease in J&J royalty income offset by increased product sales to Vetoquinol and new customers.

Cost of sales, as a percent of product sales, increased from 43% for the six months ended June 30, 2002 to 45% for the six months ended June 30, 2003. The resulting decrease in gross profit from 57% in the six months ended June 30, 2002 to 55% in the six months ended June 30, 2003 is the result of the change in mix to lower gross profit products and underabsorbed fixed costs.

Selling, general and administrative expenses increased $24,000, or 2%, from $1,328,000 for the six months ended June 30, 2002. As a percent of revenues, these expenses were 62% of revenues for the first six months of 2002 compared to 73% for the first six months of 2003. The increase is primarily due to a $202,000 severance expense accrued in the second quarter of 2003 for the cost of the benefits to be provided by the Company under a severance package to the Company's current President and Chief Executive Officer upon his resignation from office, offset by a decline in salary expense due to staff reductions after the sale of the Companion Pet Products division.

Product development and research expenses increased $36,000, or 13%, compared to the six months ended June 30, 2002. The increase is a result of additional projects that are being worked on for existing and potential new customers.

Interest expense decreased $311,000 from interest expense of $303,000 for the six months ended June 30, 2002 to interest income of $8,000 for the six months ended June 30, 2003. The decrease is due to lower interest rates and the pay down of the Company's debt on May 31, 2002 using the proceeds from the sale of the Companion Pet Products division.

Discontinued operations for the six months ended June 30, 2002 consisted of a $401,000 loss from discontinued operations offset by a $12,468,000 gain from the sale of the Companion Pet Products division. The $169,000 of income from discontinued operations for the six months ended June 30, 2003 is a result of an insurance settlement, net of legal costs, received for damages arising from the heating oil leak at the Company's Companion Pet Products site.

Liquidity and Capital Resources

The Company's operating activities used $350,000 of cash during the six months ended June 30, 2003 compared to $1,500,000 used in the comparable period in 2002. Payments for environmental remediation costs and prepaid insurance premiums were the major use of cash in 2003. In 2002, cash from the proceeds from the sale of the Companion Pet Products division was utilized to pay down accounts payable and accrued expenses.

The Company used $44,000 of cash during the six months ended June 30, 2003 for investing activities compared to cash generated of $17,216,000 from investing activities for the comparable period in 2002. The majority of 2003's investing activities was for the purchase of computers and machinery and equipment, while 2002's activity primarily was cash generated from the sale of the Companion Pet Products division, a former corporate office building and marketable securities.

The Company's financing activities utilized $33,000 of cash in the six months ended June 30, 2003 compared to $11,923,000 used in the comparable period in 2002. The cash utilized in 2003 was primarily for the purchase of Company stock as part of a stock buy-back program which was authorized in December 2002, offset by funding and payments of the EDA loan. In 2002 cash was utilized to payoff the Fleet Capital Bank and American Capital Strategies debt using the proceeds from the sale of the Companion Pet Products division.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The Company's principal sources of liquidity are cash from operations and cash and cash equivalents. Management believes that existing cash and cash equivalents and cash flows from operations will be sufficient to meet the Company's foreseeable cash needs for at least the next year. However, there may be acquisition and other growth opportunities that require additional external financing. Management may, from time to time, seek to obtain additional funds from the public or private issuances of equity or debt securities. There can be no assurance that such financings will be available or available on terms acceptable to the Company.

There have been no material changes to the Company's contractual commitments as reflected in the 2002 10-K Annual Report.

Regulatory Proceeding and Legal Proceedings

On April 6, 2000, officials of the New Jersey Department of Environmental Protection 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. The Company continues to discuss with the authorities a resolution of any potential assessment under the NOV's and has accrued the estimated expense of the penalties that may be assessed under such NOV's.

On March 2, 2001, the Company discovered the presence of environmental contamination resulting from a heating oil leak at its Companion Pet Products site. The Company immediately notified the New Jersey Department of Environmental Protection and the local authorities, and hired a certified environmental 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. A further update was performed in December 2002 and the final estimated cost was increased to $620,000, of which $149,000 remains accrued as of June 30, 2003. It is currently anticipated that the majority of the remediation will be completed by the end of the summer of 2003. Subsequently, there will be periodic testing and removal performed, which is projected to span over the next five years. The estimated cost of such future monitoring is included in the accrual.

Factors Which May Affect Future Results

The industry in which the Company competes is subject to intense competitive pressures. The following sets forth some of the risks which the Company faces.

Intense Competition in Consumer Products Business

The Company's Consumer Products business competes with large, well-financed cosmetics and consumer products companies with development and marketing groups that are well established and experienced in the industry and possess far greater financial and other resources than those available to the Company. There is no assurance that the Company's consumer 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(r) 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

In the future, the Company expects to sublicense its Novasome(r) technologies to third parties, who would manufacture and market products incorporating the technologies. If the Company's competitors develop superior technologies, the Company's technologies could be less acceptable in the marketplace and therefore the Company's planned technology sublicensing could be materially adversely affected.

American Stock Exchange (AMEX) Continuing Listing Standards

On March 28, 2002, the Company was notified by AMEX that it was below certain of the Exchange's standards for continued listing. Specifically, under applicable AMEX listing standards, in order to remain listed the Company was required to reflect income from continuing operations and net income for 2002 and a minimum of $4,000,000

in stockholders' equity by December 31, 2002. On April 25, 2002, the Company submitted a plan of compliance to AMEX. On June 12, 2002, AMEX notified the Company that it had accepted the Company's plan of compliance and had granted the Company an extension of time to regain compliance with the continued listing standards by December 31, 2002. The loss from continuing operations for the year ended December 31, 2002 reflected tax expense resulting from a change in the New Jersey tax law that was retroactive to January 1, 2002. As a result of this tax expense, the Company determined that it would have a loss from continuing operations for 2002. The Company notified AMEX of this issue on November 14, 2002 after release of the Company's 2002 third quarter results.

In February 2003, the Company contacted AMEX after release of the Company's 2002 year-end results. On April 14, 2003, the Company received formal notification from AMEX that the Company was deemed to be in compliance with all AMEX requirements for continued listing on AMEX.

Critical Accounting Policies

There have been no material changes to the Company's critical accounting policies as reflected in the 2002 10-K Annual Report.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not utilize financial instruments for trading purposes and holds no derivative financial instruments which could expose the Company to significant market risk. The Company's primary market risk exposure with regard to financial instruments is changes in interest rates. The Company's cash equivalents consist primarily of investments in mutual funds. Management believes, based on the current interest rate environment, that a 100 basis point change in interest rates would have an immaterial impact on interest income.

ITEM 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2003, and based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

The evaluation referred to above did not identify any changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

13

IGI, INC. AND SUBSIDIARIES
PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 2. Changes in Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

The Company held its 2003 Annual Meeting of Stockholders on May 20, 2003 to vote on two proposals. Proxy statements were sent to all shareholders. The first proposal was for the election as directors of the following seven people: Earl K. Lewis, John F. Ambrose, Stephen J. Morris, Terrence O'Donnell, Constantine L. Hampers, Donald W. Joseph, and Frank Gerardi. All seven directors were elected with the following votes tabulated:

Name of director	Total votes for each director	Total votes withheld from each director
Mr. Lewis	9,086,063	1,925,662
Mr. Ambrose	8,162,363	2,849,362
Mr. Morris	9,086,063	1,925,662
Mr. O'Donnell	9,086,063	1,925,662
Dr. Hampers	8,162,363	2,849,362
Mr. Joseph	9,086,063	1,925,662
Mr. Gerardi	10,811,925	199,800

The second proposal was for the ratification of the appointment of independent auditors for the year 2003. The appointment of the current auditors, KPMG LLP, was ratified, with the following votes tabulated:

For	Against	Abstain
9,432,042	327,948	1,251,735

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

*10.99 Settlement Agreement and Release

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted under Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference to Exhibit 10.99 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003.

IGI, INC. AND SUBSIDIARIES
PART II OTHER INFORMATION, continued

(b) Reports on Form 8-K

A report on Form 8-K was filed on July 2, 2003, reporting that on June 27, 2003, IGI's Board of Directors unanimously elected Frank Gerardi as Chairman of the Board of Directors to fill the vacancy in office resulting from the resignation of Earl Lewis. Separately, on June 27, 2003, John Ambrose, the Company's President and Chief Executive Officer, announced his intention to step down as President and Chief Executive Officer on December 31, 2003, or at such earlier date as the Chairman of the Board determines is appropriate.

15

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: May 14, 2004

By: /s/ Frank Gerardi

Frank Gerardi
Chairman and Chief Executive Officer

Date: May 14, 2004

By: /s/ Domenic N. Golato

Domenic N. Golato
Senior Vice President and Chief Financial Officer

16