IGI LABORATORIES, INC
Form 10-Q
August 16, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE

ACT OF 1934

For the quarterly period ended June 30, 2010

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

For the transition period from _____ to_____

Commission File Number 001-08568

IGI Laboratories, 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, New Jersey** *(Address of Principal Executive Offices)*	**08310** *(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 þ No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	þ

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

The number of shares outstanding of the issuer's common stock is 17,714,548 shares, net of treasury stock, as of August 6, 2010.

PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

IGI LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share information)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenues:				
Product sales	$ 1,493	$ 999	$ 2,283	$ 1,504
Research and development income	160	64	183	66
Licensing and royalty income	91	79	158	166
Total revenues	1,744	1,142	2,624	1,736
Cost and expenses:				
Cost of sales	1,562	929	2,473	1,529
Selling, general and administrative expenses	814	1,311	1,722	1,959
Product development and research expenses	368	151	655	269
Operating loss	(1,000)	(1,249)	(2,226)	(2,021)
Interest income (expense) and other income, net	1	(791)	3	(951)
Net loss	(999)	(2,040)	(2,223)	(2,972)
Dividend accreted for beneficial conversion features	-	(1,518)	-	(2,488)
Net Loss Attributable to Common Stockholders	$ (999)	$(3,558)	$(2,223)	$(5,460)
Basic and diluted loss per share	$ (.06)	$ (.23)	$ (.13)	$ (.36)
Weighted Average of Common Stock and				

Common Stock Equivalents Outstanding				
Basic and diluted	17,706,215	15,571,391	17,629,259	15,243,128

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

IGI LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

	June 30, 2010 (unaudited)	December 31, 2009*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 258	$ 1,124
Accounts receivable, less allowance for doubtful accounts of $90 in 2010 and 2009	999	741
Licensing and royalty income receivable	128	67
Inventories	1,156	874
Prepaid expenses and other current assets	256	212
Total current assets	2,797	3,018
Property, plant and equipment, net	2,831	2,764
Restricted cash long term	54	54
License fee, net	550	600
Other	57	20
Total assets	$ 6,289	$ 6,456
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 742	$ 542
Accrued expenses	271	422
Deferred income, current	196	137
Capital lease obligation, current	37	-
Total current liabilities	1,246	1,101
Long term liabilities:		
Deferred income, long term	32	34
Capital lease obligation, long term	77	-
Total long term liabilities	109	34
Total liabilities	1,355	1,135
Commitments and contingencies		
Stockholders equity:		
Series A Convertible Preferred stock, $.01 par value, 100 shares authorized; 50 shares issued and outstanding as of June 30, 2010 and December 31, 2009; liquidation preference - $500,000	500	500

Series B-1 Convertible Preferred stock, $.01 par value, 1,030 shares authorized;				
1,006.879 shares issued and outstanding as of June 30, 2010 and December 31, 2009; liquidation preference - $ 6,351,466		5,852		5,852
Series C Convertible Preferred stock, $.01 par value, 1,550 shares authorized;				
1,550 and 0 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively; liquidation preference - $ 1,569,959		1,517		-
Common stock, $.01 par value, 50,000,000 shares authorized; 19,671,955 and				
19,302,987 shares issued 17,706,215 and 17,337,247 shares outstanding as of				
June 30, 2010 and December 31, 2009, respectively		196		193
Additional paid-in capital		32,291		31,975
Accumulated deficit		(34,027)		(31,804)
Less treasury stock, 1,965,740 common shares at cost		(1,395)		(1,395)
Total stockholders equity		4,934		5,321
Total liabilities and stockholders' equity	$	6,289	$	6,456

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

* Derived from the audited December 31, 2009 financial statements

IGI LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six months ended June 30,	
	2010	**2009**
Cash flows from operating activities:		
Net loss	$ (2,223)	$ (2,972)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation	132	126
Amortization of license fee	50	50
Provision for write down of inventory	96	-
Stock-based compensation expense	319	154
Directors compensation payable in stock	-	32
Interest expense on convertible note payable	-	41
Amortization of discount on convertible note payable	-	33
Amortization of discount on convertible note payable related party	-	211
Amortization of debt issuance costs	-	659
Changes in operating assets and liabilities:		
Accounts receivable	(258)	91
Licensing and royalty income receivable	(61)	30
Inventories	(378)	(249)
Prepaid expenses and other current assets	(44)	(54)
Accounts payable and accrued expenses	49	363
Deferred income	57	121
Net cash used in operating activities	(2,261)	(1,364)
Cash flows from investing activities:		
Capital expenditures	(77)	(437)
Deposit for capital lease	(37)	-
Net cash used in investing activities	(114)	(437)
Cash flows from financing activities:		
Sale of Series C Convertible Preferred Stock, net of expenses	1,517	-
Principal payments on capital lease obligation	(8)	-
Sale of Series B-1 Convertible Preferred Stock, net of expenses	-	1,073
Proceeds from issuance of convertible note payable, net of expenses	-	4,206
Proceeds from exercise of common stock options and warrant	-	1
Net cash provided by financing activities	1,509	5,280
Net increase (decrease) in cash and cash equivalents	(866)	3,479

Cash and cash equivalents at beginning of period	1,124	171
Cash and cash equivalents at end of period	$ 258	$ 3,650
Supplemental cash flow information:		
Cash payments for interest	$ 1	$ 14
Cash payment for taxes	2	11
Non cash transactions:		
Equipment financed	$ 122	$ -
Dividend accreted for beneficial conversion features	-	2,488
Issuance of stock to directors for compensation that was previously accrued	-	20
Conversion of note payable and accrued interest to Series B-1 Convertible Preferred Stock	-	4,779
Conversion of note payable related party to common stock	-	464

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

IGI LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the six months ended June 30, 2010

(in thousands, except share information)

	Series A Preferred Stock Shares	Amount	Series B-1 Convertible Preferred Stock Shares	Amount	Series C Convertible Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Treasu Stock
Balance, December 31, 2009 (Audited)	50	$ 500	1,007	$5,852	-	$ -	19,302,987	$ 193	$ 31,975	$ (31,804)	$(1,39
Issuance of preferred stock pursuant to a private placement, net of associated fees of $33					1,550	1,517					
Stock-based compensation expense - stock options									131		
Stock-based compensation expense - restricted stock									188		
Restricted stock issuance							1,019,00	10	(10)		
Restricted stock forfeiture							(650,032)	(7)	7		
Net loss	-	-	-	-	-	-	-	-	-	(2,223)	
Balance, June 30, 2010 (Unaudited)	50	$ 500	1,007	$5,852	1,550	$1,517	19,671,955	$ 196	$ 32,291	$ (34,027)	$(1,39

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

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IGI LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles 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-K for the year ended December 31, 2009. The condensed consolidated balance sheet as of December 31, 2009 has been derived from those audited consolidated financial statements. Operating results for the six month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

1.

Organization

IGI Laboratories, Inc. is a Delaware corporation formed in 1977. On May 7, 2008, the stockholders of IGI, Inc. approved the name change of the Company from IGI, Inc. to IGI Laboratories, Inc. As used in this report, the terms the Registrant, the Company, IGI, Inc., IGI and IGI Laboratories refer to IGI Laboratories, Inc., unless the c requires otherwise. The Company s office, laboratories and manufacturing facilities are located at 105 Lincoln Avenue, Buena, New Jersey. IGI is engaged in the formulation, development, manufacture and packaging of topical semi-solid and liquid products for pharmaceutical, cosmeceutical and cosmetic customers. The Company s strategic plan is to build upon this foundation by expanding into the prescription pharmaceutical arena. This strategy will be based upon three initiatives: increasing the current contract manufacturing services business, developing a generic portfolio of formulations in topical and oral liquid dosage forms, and creating opportunities around the Company s licensed Novasome® technology and novel dosage forms.

2.

Liquidity

The principal sources of liquidity for IGI Laboratories, Inc. are cash and cash equivalents of approximately $258,000 at June 30, 2010 and cash from operations. The Company sustained a net loss attributable to common stockholders of approximately $2,223,000 for the six months ended June 30, 2010 and had working capital of approximately

$1,551,000 at June 30, 2010.

The Company s business operations have been partially funded over the past three years through the exercise of stock options by our directors and officers, through private placements of our capital stock, the line of credit described below and issuance of debt. As described more fully in Footnotes 8, 10, 11 and 12, we raised an aggregate of $5,304,000 in 2009 and $1,517,000 for the six months ended June 30, 2010 principally from private equity investors. 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 also 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.

On March 29, 2010, the Company completed a $1,550,000 private placement with certain investors, including investment funds affiliated with Signet Healthcare Partners, G.P. and Jane E. Hager (the Series C Offering). As part of the Series C Offering, the Company issued 1,550 shares of Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock has a par value of $0.01 per share and the holders are entitled to quarterly dividends at an annual rate of 5%, when and if declared by the Board of Directors. Furthermore, each share of Series C Preferred Stock is convertible into shares of common stock equal to (i) 1,000 plus any accrued and unpaid dividends, divided by (ii) $0.69 (the closing price of the Company s common stock on the date of issuance of the Series C Convertible Preferred Stock).

We believe that we need to be supplemented by an additional capital infusion in the fourth quarter of 2010 to support our long term business plan. However, the trading price of our common stock, our pending application to continue listing our common stock on NYSE Amex, a downturn in the U.S. equity and debt markets or the negative economic trends in general could make it more difficult to obtain financing through the issuance of equity securities or otherwise. There can be no assurance that such financing will be available on terms acceptable to the Company, or at all. In the event we do not obtain such financing, we will look to accelerate our partnering opportunities, thereby deflecting a portion of development costs, while delaying certain projects to further avoid costs.

3.

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 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 amounts of revenues and expenses during the reporting period. Significant estimates include allowances for excess and obsolete inventories, allowances for doubtful accounts, provisions for income taxes and related deferred tax asset valuation allowance, stock based compensation, and accruals for environmental cleanup and remediation costs. Actual results could differ from those estimates.

Loss Per Share

Basic net loss per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock is computed using the weighted average number of shares of common stock and potential dilutive common stock equivalents outstanding during the period. Due to the net loss for the six months ended June 30, 2010 and 2009 and the three months ended June 30, 2010 and 2009, the effect of the Company s potential dilutive common stock equivalents was anti-dilutive for each period; as a result, the basic and diluted weighted average number of common shares outstanding and net loss per common share are the same. Potentially dilutive common stock equivalents include convertible preferred stock and options and warrants to purchase the Company s common stock, which were excluded from the net loss per share calculations due to their anti-dilutive effect, and amounted to 20,105,947 for 2010 and 18,902,462 for 2009.

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 ASC 605, *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 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 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 enters into product development agreements with its customers to perform product development services. Product development revenues are recognized in accordance with the product development agreement upon the completion of each phase of development and when we have no future performance obligations relating to such phase of development. Revenue recognition requires the Company to assess progress against contracted obligations to assure completion of each stage. Payments under these arrangements are generally non-refundable and are reported as deferred until they are recognized as revenue. If no such arrangement exists, product development fees are recognized ratably over the entire period during which the services are performed.

Major Customers

Major customers of the Company are defined as having revenue greater than 10% of total gross revenue. For the three months ended June 30, 2010 and 2009, one of our customers accounted for 46% and two of our customers accounted for 26% of our revenue, respectively. For the six months ended June 30, 2010 and 2009, two of our customers accounted for 51% and three of our customers accounted for 36% of our revenue, respectively. Two of these customers are the same for the six months ended June 30, 2010 and 2009. Accounts receivable related to the Company s major customers comprised 53% of all account receivables as of June 30, 2010. The loss of one or more of these customers could have a significant impact on our revenues and harm our business and results of operations.

Recent Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board, or FASB, provided guidance under ASC 605 on defining a milestone and determining when it is appropriate to apply the milestone method of revenue recognition for research and development transactions. Vendors can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period the milestone is achieved if the milestone meets all the criteria stated in the guidance to be considered substantive and must be considered substantive in its entirety. The Company adopted this standard for the three month period ending June 30, 2010 and the adoption is not expected to have a material impact on the Company s consolidated financial statements.

In February 2010, the FASB issued ASC 855, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements,* which, among other things, amended ASC 855 to remove the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. The new guidance became effective immediately for financial statements that are issued or available to be issued. As a result, the Company has adopted ASC 855 effective with this quarterly report. The adoption of ASC 855 did not have a material impact on the Company s condensed consolidated financial statements.

Reclassification of Prior Period Balances

Certain prior quarter balances have been reclassified to conform to the current quarter financial statement presentation. This reclassification of Quality Analytical expenses from January to June which related to the Company s work performed for ANDA filing for FDA submission has no impact on net loss or cash flows for prior fiscal periods.

4.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out (FIFO) method, or market. Inventories at June 30, 2010 and December 31, 2009 consist of:

	June 30, 2010	**December 31, 2009**

	(Unaudited)	(Audited)
	(amounts in thousands)	
Raw materials	$ 994	$ 751
Work in progress	55	12
Finished goods	107	111
Total	$1,156	$ 874

5.

Stock-Based Compensation

Under the 1998 Directors Stock Plan, as amended, 600,000 shares of the Company s common stock are authorized under the plan and reserved for issuance to non-employee directors, in lieu of payment of directors fees in cash. The Company issued 59,176 shares in 2009 as consideration for directors fees for the fourth quarter of 2008 and the first, second and third quarters of 2009. Directors fees were accrued on the Company s financial statements for each of those quarters. In November 2009, the Company s Board of Directors approved the elimination of payment of directors fees in stock under this plan beginning in the fourth quarter of 2009.

The 1999 Director Stock Option Plan, as amended (the Director Plan), provides for the grant of stock options to non-employee directors of the Company at an exercise price equal to the fair market value per share on the date of the grant. An aggregate of 1,975,000 shares have been approved and authorized for issuance pursuant to this plan. A total of 1,814,798 options have been granted to non-employee directors through June 30, 2010. The options granted under the Director Plan vest in full one year after their respective grant dates and have a maximum term of ten years.

A total of 2,892,500 options, having a maximum term of ten years, have been granted at 100% of the fair market value of the Company's common stock at the time of grant pursuant to the Company s 1999 Stock Incentive Plan. Options outstanding under the 1999 Plan are generally exercisable in cumulative increments over four years commencing one year from date of grant. Awards may no longer be granted pursuant to the Company s 1999 Stock Incentive Plan.

On June 26, 2009, the Board of Directors adopted, and the Company s stockholders subsequently approved by partial written consent, the IGI Laboratories, Inc. 2009 Equity Incentive Plan (the 2009 Plan). The 2009 Plan became effective on July 29, 2009. The 2009 Plan allows the Company to continue to grant options and restricted stock, as under the 1999 Plan, but also authorizes the Board of Directors to grant a broad range of other equity-based awards, including stock appreciation rights, restricted stock units and performance awards. The 2009 Plan has been created, pursuant to and consistent with the Company s current compensation philosophy, to assist the Company in attracting, retaining and rewarding designated employees, directors, consultants and other service providers of the Company and its subsidiaries and affiliates, in a manner that will be cost efficient to the Company from both an economic and financial accounting perspective. The 2009 Plan, as amended on May 19, 2010, authorizes up to 4,000,000 shares of the Company s common stock for issuance pursuant to the terms of the 2009 Plan. The maximum number of shares that may be subject to awards made to any individual in any single calendar year under the 2009 Plan is 1,000,000 shares. As of June 30, 2010, options to purchase 275,000 shares of common stock were outstanding under the 2009 Plan and 1,443,968 shares of restricted stock had been granted under the 2009 Plan.

Stock Options

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 six months ended June 30, 2010
Expected volatility	65.1%
Expected term (in years)	3.2 years
Risk-free rate	1.77%
Expected dividends	0%

A summary of option activity under the 1999 Plan, the Director Plan and the 2009 Plan as of June 30, 2010 and changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding as of January 1, 2010	2,014,177	$1.12

Issued		105,000	$0.79
Exercised		-	-
Forfeited		(577,943)	$1.08
Expired		(65,000)	$1.95
	Outstanding as of June 30, 2010	1,476,234	$1.08
	Exercisable as of June 30, 2010	1,117,480	$1.09

Based upon application of the Black-Scholes option-pricing formula described above, the weighted-average grant-date fair value of options granted during the three months ended June 30, 2010 was $0.13.

The following table summarizes information regarding options outstanding and exercisable at June 30, 2010:

Outstanding:

Range of Exercise Prices		Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$0.50	$1.00	388,500	$0.73	6.33
$1.01	$1.50	1,030,718	$1.18	7.56
$1.51	$2.00	57,016	$1.52	3.51
Total		1,476,234	$1.08	7.08

Exercisable:

Range of Exercise Prices		Stock Options Exercisable	Weighted Average Exercise Price
$0.50	$1.00	266,833	$0.69
$1.01	$1.50	793,631	$1.20
$1.51	$2.00	57,016	$1.52
Total		1,117,480	$1.09

As of June 30, 2010, the intrinsic value of the options outstanding is $108,785 and the intrinsic value of the options exercisable is $85,518. There were no options exercised during the six months ended June 30, 2010. As of June 30, 2010, there was approximately $97,145 of total unrecognized compensation cost that will be recognized through November 2012 related to non-vested share-based compensation arrangements granted under the Plans.

Restricted Stock

The Company periodically grants restricted stock awards to certain officers and other employees that typically vest one to three years from their grant date. The Company recognized $189,000 and $93,000, respectively, of compensation expense during the six months ended June 30, 2010 and 2009 related to restricted stock awards. Stock compensation expense is recognized over the vesting period of the restricted stock. At June 30, 2010, the Company had approximately $697,651 of total unrecognized compensation cost related to non-vested restricted stock, all of which will be recognized from July 2010 through April 2013.

	Number of Restricted Stock	Weighted Average Exercise Price
Non-vested balance at January 1, 2010	801,355	$ 1.06
Changes during the period:		
Shares granted	1,019,000	0.71
Shares vested	(101,315)	1.02
Shares forfeited	(650,032)	1.07
Non-vested balance at June 30, 2010	1,069,008	$ 0.73

See Footnote 13 below regarding restricted stock award to Philip S. Forte, the Company s Chief Financial Officer and Charles E. Moore, CEO and President.

See Footnote 13 below regarding restricted stock and stock options for Hemanshu Pandya, the Company s former President and Chief Executive Officer, upon his resignation as of April 1, 2010.

6.

Income Taxes

As a result of the Company s history of continuing tax losses, the Company has not paid income taxes and has recorded a full valuation allowance against its net deferred tax asset. The Company has not recorded a liability for unrecognized tax benefits at June 30, 2010 and no significant changes are expected in the next twelve months. The tax years 2007 through 2009 remain open to examination by the major taxing jurisdictions to which the Company is subject.

There was no accrued interest related to unrecognized tax benefits at June 30, 2010.

7.

License Fee

On December 12, 2005, the Company extended its license agreement for an additional ten years with Novavax, Inc. for $1,000,000. This extension entitles the Company to exclusive use of the Novasome® lipid vesicle encapsulation and certain other technologies (each a Microencapsulation Technology , and 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) through 2015. This payment is being amortized ratably over the ten-year period. The Company recorded amortization expense of $50,000 related to this agreement for each of the six month periods ended June 30, 2010 and 2009.

8.

Note Payable

On January 26, 2009, the Company signed the Second Amendment to Loan and Security Agreement, which amended and restated the Loan and Security Agreement, as amended, with Pinnacle Mountain Partners, LLC (Pinnacle). This Second Amendment to Loan and Security Agreement extended the maturity date of the $500,000 maximum loan amount from January 31, 2009 to July 31, 2009, with interest at 8.5% (rather than prime plus 1.5%). As in the original Loan and Security Agreement, as amended, loans under this amendment were collateralized by the assets of the Company (other than real property). The Company borrowed $500,000 under this Second Amendment to Loan and Security Agreement as of May 15, 2009 and incurred associated interest expense of $14,065 for the period January 1, 2009 to May 15, 2009 (date of conversion).

On March 13, 2009, the Company completed the 2009 Offering as more fully described in Footnote 11 below. As a condition to the consummation of the 2009 Offering, on March 13, 2009, the Company and Pinnacle entered into the Third Amendment to Loan and Security Agreement pursuant to which the parties agreed to change the final payment date of the amounts borrowed under the agreement from July 31, 2009 to instead provide that 50% of the amount of all loans and advances made by Pinnacle under the agreement will become due and payable on July 31, 2010 and the remaining outstanding loans and advances, together with interest thereon, will become due and payable on July 31, 2011.

In addition, as a condition to the consummation of the 2009 Offering, the Company and Pinnacle entered into a note conversion agreement (Note Conversion Agreement) dated March 13, 2009, pursuant to which Pinnacle agreed to convert the principal amount outstanding under the Third Amended and Restated Revolving Note (the Note Payable) into shares of the Company s common stock at a conversion rate of $0.41 per share of common stock (the conversion shares) upon receipt of stockholder approval by the Company of such conversion. Upon receipt of the conversion shares, the obligations and liabilities of the Company to repay the principal amount of the Note Payable would be deemed satisfied and paid in full. At the Company s 2009 annual meeting of stockholders held on May 15, 2009, the Company s stockholders approved the Note Conversion. Immediately upon stockholder approval, the $500,000 principal amount outstanding under the Note Payable was converted into 1,219,512 shares of the Company s common stock. For additional information relating to the 2009 Offering, see Footnote 11 below.

9.

Related Party Transactions

For a description of the Company s Credit Agreement with Pinnacle and the Private Placement with Signet Healthcare Partners, G.P the related parties, see Footnotes 8 above and 11 below respectively

10.

Stock Warrants

In connection with the 2009 Offering (See Footnote 11 below), the Company granted its placement agent for the Offering a Common Stock Warrant to purchase 350,000 shares of common stock for $0.41 per share, which expires on March 13, 2012. Until stockholder approval of the 2009 Offering was obtained, this Common Stock Warrant was exercisable for no more than 88,550 shares. At the Company s 2009 annual meeting of stockholders held on May 15, 2009, the Company s stockholders approved the 2009 Offering. The fair value of the Common Stock Warrant of approximately $102,000 was determined using the Black Scholes model. The factors used in the calculation are as follows: expected volatility of 66.8%, expected term of 3 years and risk-free interest rate of 1.36%. Expected volatility and risk-free interest rates are based upon the expected life of the warrant. The interest rates used are the yield of a 3-year U.S. Treasury Note as of March 13, 2009. Of this amount, $82,000 was deemed to be attributable to the issuance of debt and was capitalized as debt issuance costs. On December 2, 2009, the Common Stock Warrant was amended to include a partial transfer for 87,500 shares of common stock. On December 2, 2009, the warrant to purchase 87,500 was exercised using the Cashless Exercise provision and 51,681 shares of common stock were issued.

In connection with a Private Placement Memorandum dated December 10, 2007, the Company entered into a subscription agreement with Univest Management, Inc. EPSP, which granted Univest a warrant to purchase 52,500 shares of common stock at an exercise price of $1.25 per share. This warrant expired on December 10, 2009, two years from issuance.

In connection with a Private Placement Memorandum dated December 4, 2007, the Company entered into a subscription agreement which granted a warrant to purchase 175,000 shares of common stock at an exercise price of $1.25 per share. These warrants expired on December 4, 2009, two years from issuance.

In connection with the Private Placement transaction executed with Pharmachem, dated February 5, 2007, the Company issued a warrant to purchase 150,000 shares at $1.00 per share to Landmark Financial Corporation as commission on the transaction. During the quarter ended June 30, 2008, Landmark Financial Corporation exercised a portion of the warrant to acquire 25,000 shares of common stock. The remainder of this warrant expired on March 7, 2009.

11.

Convertible Preferred Stock and Convertible Promissory Notes 2009 Offering

On March 13, 2009, the Company completed a $6,000,000 private placement with certain investment funds affiliated with Signet Healthcare Partners, G.P. (the 2009 Offering). As part of the 2009 Offering, the Company issued 202.9 shares of Series B-1 Preferred Stock, $4,782,600 in Secured Convertible Promissory Notes (Promissory Notes), Preferred Stock Purchase Warrants to purchase 797.1 shares of non-voting Series B-2 Preferred Stock (Preferred Stock Warrants), a Common Stock Purchase Warrant to purchase 350,000 shares of common stock (Common Stock Warrant) and amended its line of credit with Pinnacle. In connection with the 2009 Offering, the Company incurred placement and legal fees of approximately $721,000, resulting in net proceeds of $5,279,000. These fees were recorded as debt issuance costs in the amount of $577,000 and paid-in capital in the amount of $144,000.

The Series B-1 Preferred Stock has a par value of $0.01 per share and the holders are entitled to quarterly dividends at an annual rate of 5%, when and if declared by the Board of Directors. Furthermore, each share of the Series B-1 Preferred Stock is convertible into 14,634 shares of common stock for an implied common stock conversion price of $0.41 per share, subject to certain adjustments and any accrued and unpaid dividends. At the time of issuance, the market price of the common stock into which the Series B-1 Preferred Stock is convertible was greater than the conversion price. The embedded beneficial conversion feature is being accounted for in accordance with ASC 470 relating to *Debt with Conversions and Other Options* . Accordingly, the beneficial conversion feature on the Series B-1 Preferred Stock is approximately $505,000, which represents the amount by which the estimated fair value of the common stock issuable upon conversion exceeds the proceeds from such issuance and was treated as a deemed dividend on the date of the 2009 Offering.

The Promissory Notes had a maturity date of July 31, 2009 and an annual interest rate of 5%. On the date of issuance, the Promissory Notes had a fair value of approximately $4,706,000, resulting in a debt discount of $77,000. Furthermore, the Company entered into Guaranty and Security Agreements to guarantee repayment of the Promissory Notes upon maturity. The Promissory Notes were collateralized by the assets of the Company. However, upon approval by the Company s stockholders of the 2009 Offering, the Promissory Notes, unamortized discount, and any accrued interest automatically converted into Series B-1 Preferred Stock for $6,000 per share and the Preferred Stock Warrants became null and void. The beneficial conversion feature of the Promissory Notes is approximately $1,983,000 which is recorded as a deemed dividend from March 14, 2009 through May 15, 2009. The value of the Preferred Stock Warrants was nominal. Under applicable NYSE Amex rules, the 2009 Offering required stockholder approval, which was obtained at the Company s 2009 annual meeting of stockholders held on May 15, 2009. Immediately upon stockholder approval, the $4,782,600 aggregate principal amount of Promissory Notes issued in the 2009 Offering, together with accrued and unpaid interest, were converted into an aggregate of 803.979 shares of the Company s Series B-1 Preferred Stock and the Preferred Stock Warrants issued in the 2009 Offering became null and void.

The Company granted its placement agent for the 2009 Offering a Common Stock Warrant to purchase 350,000 shares of common stock for $0.41 per share, which expires on March 13, 2012, as described more fully in Footnote 10.

In connection with the 2009 Offering, the Company and Pinnacle entered into the Third Amendment to Loan and Security Agreement. Pinnacle agreed to change the terms of repayment such that 50% of the amount borrowed under the line of credit, or $500,000 as of March 31, 2009 (see Footnote 8 above), would be payable on July 31, 2010 and the remaining balance would be payable on July 31, 2011. Furthermore, the Company and Pinnacle entered into a Note Conversion Agreement for which Pinnacle agreed to automatically convert the principal amount due under the Third Amended and Restated Revolving Note (the Note Payable) into shares of the Company s Common Stock at a conversion rate of $0.41 per share upon stockholder approval of the Note Conversion. The beneficial conversion feature of the Note Payable of approximately $207,000 was recorded as a debt discount. The fair value of the Note Payable, as modified, was approximately $460,000, resulting in a debt discount of $40,000. At the Company s 2009 annual meeting of stockholders held on May 15, 2009, the Company s stockholders approved the Note Conversion. Immediately upon stockholder approval, the $500,000 principal amount outstanding under the Note Payable was converted into 1,219,512 shares of the Company s common stock.

Debt discounts and debt issuance costs were amortized using the effective interest method. No amounts were outstanding at December 31, 2009 or June 30, 2010.

12.

Convertible Preferred Stock 2010 Offering

On March 29, 2010, the Company completed a $1,550,000 private placement with certain investors, including investment funds affiliated with Signet Healthcare Partners, G.P. and Jane E. Hager (the Series C Offering). As part of the Series C Offering, the Company issued 1,550 shares of Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock has a par value of $0.01 per share and the holders are entitled to quarterly dividends at an annual rate of 5%, when and if declared by the Board of Directors. Furthermore each share of Series C Preferred Stock is convertible into shares of common stock equal to (i) 1,000 plus any accrued and unpaid dividends, divided by (ii) $0.69 (the closing price of the Company s common stock on the date of issuance of the Series C Convertible Preferred Stock). Liquidation preference is the original cost plus undeclared dividends and amounted to $1,569,959 at June 30, 2010.

13.

Changes in Management

On February 19, 2010, the Company announced in a Form 8-K filed with the Securities and Exchange Commission, that it had named Charles E. Moore as its Executive Vice President of Technical Operations, effective February 12, 2010. Under the terms of his employment agreement, Mr. Moore will receive an annual salary of $250,000. Mr. Moore also received a grant of 379,000 shares of restricted stock, one-third of which will vest on January 4, 2011, one-third of which will vest on January 4, 2012 and one-third of which will vest on January 4, 2013, so long as he is employed by the Company on each such vesting date. In addition, Mr. Moore will be entitled to participate in certain of the Company s benefit programs on the same terms and conditions generally provided by the Company to its executive employees. Mr. Moore will also be eligible to receive an annual performance bonus for each calendar year during the term of his employment, which may be payable in either cash, stock options and/or restricted stock. Mr. Moore s target bonus will be equal to 20% of his base salary for the applicable fiscal year. All performance targets pursuant to such plan shall be determined by the Company s Compensation Committee. Mr. Moore is also subject to certain restrictive covenants as set forth in his employment agreement, including confidentiality, non-solicitation and non-competition. Mr. Moore s employment agreement further provides for payments upon certain types of employment termination events as further set forth in his employment agreement.

Additionally, in the Form 8-K filed on February 19, 2010, the Company announced that the Employment Agreement between Philip S. Forte and the Company dated May 18, 2009 as filed with the Securities and Exchange Commission on Form 8-K on May 29, 2009, was amended to provide Mr. Forte with one-year base salary continuation (instead of six months of salary continuation as previously provided for his Employment Agreement) in the event of his termination by the Company without cause. On February 18, 2010, the Company also (i) increased Mr. Forte s base salary to $185,000 and (ii) granted Mr. Forte 80,000 shares of restricted stock which vest as follows: (A) one-twelfth of the shares vested as of February 12, 2010; (B) one-twelfth of the shares shall vest on each of the following dates: (x) June 30, 2010, (y) September 30, 2010 and (z) December 31, 2010; (C) one-third of the shares shall vest on February 12, 2011 and (D) one-third of the shares shall vest on February 12, 2012, so long as he is employed by the company on each such vesting date.

On March 23, 2010, the Company announced in a Form 8-K filed with the Securities and Exchange Commission that on March 19, 2010, Hemanshu Pandya, the President and Chief Executive Officer of the Company, resigned as an employee of the Company and as a member of the board of directors, effective April 1, 2010. Upon the effective date of his resignation, Mr. Pandya retained the 324,968 restricted shares of common stock that were vested and forfeited the 650,032 restricted shares of common stock that were not vested per his Restricted Stock Agreement. Additionally, Mr. Pandya had 90 days from April 1, 2010 to exercise his 176,718 vested stock options, and he forfeited 353,427 stock options that were not vested per his Option Agreement. In connection with Mr. Pandya s resignation, the Company appointed Charles E. Moore its new President and Chief Executive Officer and to fill the vacant board seat created by Mr. Pandya s resignation, each effective April 1, 2010. The Board of Directors of IGI amended Mr. Moore s February 19, 2010 employment agreement in respect to his new responsibilities with the Company as President and Chief Executive Officer. Under the amended terms of his employment agreement, Mr. Moore would receive an annual salary of $265,000. Mr. Moore also received an additional grant of 560,000 restricted shares of common stock. These shares had a grant date of April 1, 2010 and would vest over three years, in one-third increments beginning after Mr. Moore s first year of service as the President and Chief Executive Officer. Mr. Moore s target incentive bonus was also increased to 40% of his base salary for the applicable fiscal year. Further, Mr. Moore would be entitled to payment of six months of severance plus a pro-rata portion of his bonus, if he was terminated without cause following the first anniversary of his employment start date. If terminated within the first year, he would not be entitled to a severance payment.

14.

Legal

On April 22, 2010, a complaint for patent infringement was filed by Ferndale Laboratories Inc. against PruGen, Inc. and the Company in the United States District Court Eastern District of Michigan (Detroit) relating to U.S. Patent No. 5,635,497 (the '497 Patent) entitled Topical Application Compositions. Ferndale is the licensee of the 497 Patent, which is owned by Astrellas Pharma Europe B.V. The Complaint alleges infringement of the 497 Patent by PruGen and the Company in the manufacturing, using, selling and offering to sell their PruVel product. The Company is identified in the Complaint as PruGen s contract-manufacturer of the PruVel product. Ferndale is seeking unspecified money damages and injunctive relief.

On June 30, 2010, discussions and negotiations among Ferndale, PruGen and the Company resulted in a Settlement Agreement between the parties and the withdrawal of the complaint by Ferndale against PruGen Inc. and the Company. Pursuant to the Settlement Agreement, IGI agreed not to manufacture any product or composition which falls within the 497 Patent. Part of the Settlement Agreement also requires PruGen and the Company to destroy any inventory of the PruVel product in their possession after June 30, 2010 and to provide evidence of destruction to Ferndale. The Company complied with the Settlement Agreement and provided supporting evidence to Ferndale to the effect that it did not have any inventory of the PruVel product and that was duly acknowledged by Ferndale. The Company is presently awaiting the final letter from Ferndale confirming the resolution of the claim.

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

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, 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 based on current expectations of management and are not guarantees of future performance, and involve certain risks, uncertainties and assumptions, which are difficult to predict. These risks and uncertainties include, without limitation, competitive factors, outsourcing trends in the pharmaceutical industry, the general economic conditions in the markets in which the Company operates, levels of industry research and development spending, the Company s ability to continue to attract and retain qualified personnel, the fixed price nature of product development agreements or the loss of customers and other factors described in the Company s filings with the Securities and Exchange Commission, including the Risk Factors section as set forth below in this Quarterly Report on Form 10-Q. 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.

Company Overview

IGI is engaged in the formulation, development, manufacture and packaging of topical semi-solid and liquid products for pharmaceutical, cosmeceutical and cosmetic customers. The Company s strategic plan is to build upon this foundation by expanding into the prescription pharmaceutical arena. This strategy will be based upon three initiatives: increasing the current contract manufacturing services business, developing a generic portfolio of formulations in topical and oral liquid dosage forms, and creating unique opportunities around the Company s licensed Novasome® technology and novel dosage forms.

The Company has structured a new management team to implement this plan. The team brings a wealth of experience in the generic pharmaceutical industry to IGI. IGI s facilities and manufacturing equipment have been designed to produce topical and liquid products and support the Company s target prescription dosage forms.

Contract manufacturing services will continue to be crucial to IGI s success. The customer base for these services is cosmetic, cosmeceutical and over-the-counter (OTC) product marketers who require product development/manufacturing support. This is a highly-competitive market with a number of larger, greater-resourced companies offering similar services. IGI looks to create niche opportunities for itself by providing high quality, customer-oriented service.

IGI plans to build a prescription pharmaceutical portfolio in the specialty areas of oral liquid and topical dosage forms. This will be accomplished through in-house formulation and development, and submission of Abbreviated New Drug Applications (ANDAs) to the Food and Drug Administration (FDA). The entire approval process can take 3-5 years before a product is approved, of which the FDA approval portion is approximately 18 - 24 months. The Company plans to submit multiple ANDAs each year.

IGI has exclusive rights for the use of Novasome® technology in topical formulations and intends to pursue collaboration opportunities with established pharmaceutical companies seeking to develop topical products with unique properties. In addition, the Company will explore line extension opportunities through innovative packaging or alternate dosage forms of existing pharmaceutical molecules.

On March 13, 2009, we completed a $6,000,000 private placement, resulting in net proceeds of approximately $5,279,000, with certain investment funds affiliated with Signet Healthcare Partners, G.P. as more fully described in Footnote 11 to our Consolidated Financial Statements.

On March 29, 2010 the Company completed a $1,550,000 private placement with certain investors, including investment funds affiliated with Signet Healthcare Partners, G.P. and Jane E. Hager (the Series C Offering). As part of the Series C Offering, the Company issued 1,550 shares of Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock has a par value of $0.01 per share and the holders are entitled to quarterly dividends at an annual rate of 5% when and if declared by the Board of Directors. Futhermore, each share of Series C Preferred Stock is convertible into shares of common stock equal to (i) 1,000 plus any accrued and unpaid dividends, divided by $0.69 (the closing price of the Company s Stock on the date of issuance of the Series C Convertible Preferred Stock).

Results of Operations

Three months ended June 30, 2010 compared to June 30, 2009

The Company had a net loss attributable to common stockholders of $999,000, or $0.06 per share, for the three months ended June 30, 2010, compared to $3,558,000, or $0.23 per share, in the comparable period for 2009, which resulted from the following:

Revenues (in thousands):

Components of Revenue:	2010	2009	$ Change	% Change
Product sales	$1,493	$ 999	$494	49%
Research and development income	160	64	96	150%
Licensing and royalty income	91	79	12	15%
Total Revenues	$1,744	$1,142	$602	53%

The increase in product sales for the three months ended June 30, 2010 as compared to the same period in 2009 was primarily due to increased annual product sales reflecting the strong customer relationships established with the Company s major customers. Research and development income will not be consistent and will vary, from quarter to quarter, depending on the required timeline of each development project; however the increase in research and development income during the period ended June 30, 2010 as compared to the same period in 2009 is attributable to new customer relationships and their desire to have the Company develop, manufacture and package their new products or line extensions and the continued strong relationships with our current customer base. Licensing and royalty income increased as a result of our major customer s renewed interest in utilizing the Company s Novasome® technology in their products.

Costs and expenses (in thousands):

	2010	2009	$ Change	% Change
Cost of sales	$1,562	$ 929	$ 633	68%
Selling, general and administrative	814	1,311	(497)	38%
Product development and research	368	151	217	144%
Totals costs and expenditures	$2,744	$2,391	$ 353	15%

Cost of sales increased for the three months ended June 30, 2010 as a result of the increased product sales and reserves for obsolete and expired inventory. Cost of sales as a percent of product sales can vary depending on product mix. Cost of sales, excuding inventory reserves, as a percentage of product sales was 91% for the three month period ended June 30, 2010 as compared to 92% for the comparable period in 2009. The cost of sales percentage is in line with that of the previous year, if inventory reserves are excluded from the computation.

Selling, general and administrative expenses for the three month period ended June 30, 2010 decreased as compared to the same period in 2009 as the prior period included the severance expense of $341,000 for our former President and Chief Executive Officer per his 2009 separation agreement, a decrease of $198,900 in consulting fees, a decrease in recruiting fees of $59,500, a decrease of $12,500 in commission expense, a decrease of $16,900 in shareholder relations expense, offset by an increase in employees compensation payable in stock/stock options of $58,000, an increase of $76,300 in salaries, an increase of $20,100 in travel related expenses and an increase of $9,700 in employee benefit expenses.

Product development and research expenses for the three months ended June 30, 2010 increased as compared to the same period for 2009 due to an increase of $9,000 in supplies and outside testing, an increase of $25,100 in consulting fees, $102,000 due to the establishment of a fully staffed Quality Analytical department, an increase in recruiting fees of $13,500, an increase in professional fees of $31,000 and an increase in expense from the issuance of stock options of $36,400.

Interest (Expense) Income (in thousands):

	2010	2009	$ Change	% Change
Interest Expense	$(1)	$(797)	$(796)	(100)%
Interest Income	$ -	$ 6	$ (6)	(100)%

Interest expense decreased for the three months ended June 30, 2010 as compared to the same period in 2009 due to approximately $792,000 of accrued interest and amortization of debt discount and debt issuance costs related to the convertible notes payable issued in connection with the Offering (see Footnote 11 to the Company s Consolidated Financial Statements) that were included in interest expense in 2009. Interest income decreased for the three months ended June 30, 2010 as compared to the same period in 2009 due to lower average cash balances in 2010.

Net loss attributable to common stockholders (in thousands, except per share numbers):

	2010	2009	$ Change	% Change
Net loss attributable to common stockholders	$(999)	$(3,558)	$(2,559)	(72)%
Net loss per share	(.06)	(.23)	(.17)	(74)%

The decrease in net loss attributable to common stockholders for the three months ended June 30, 2010 as compared to the same period in 2009 is due to approximately $792,000 of accrued interest and amortization of debt discount and debt issuance costs related to the convertible notes payable issued in connection with the 2009 Offering (see Footnote 11 to our Consolidated Financial Statements) that were included in interest expense and the dividend accreted for beneficial conversion features of $1,518,000 for 2009, as well as the items noted above.

Six months ended June 30, 2010 compared to June 30, 2009

The Company had a net loss attributable to common stockholders of $2,223,000, or $0.13 per share, for the six months ended June 30, 2010, compared to $5,460,000, or $0.36 per share, in the comparable period for 2009, which resulted from the following:

Revenues (in thousands):

Components of Revenue:	2010	2009	$ Change	% Change
Product sales	$2,283	$1,504	$ 779	52%
Research and development income	183	66	117	177%
Licensing and royalty income	158	166	(8)	(5)%
Total Revenues	$2,624	$1,736	$ 888	51%

The increase in product sales for the six months ended June 30, 2010 as compared to the same period in 2009 was primarily due to increased annual product sales to the Company s major customers. Research and development income will not be consistent and will vary, from period to period, depending on the required timeline of each development project; the increase in research and development income during the period ended June 30, 2010 as compared to the same period in 2009 is attributable to new customer relationships and their desire to have the Company develop, manufacture and package their new products or line extensions and the continued strong relationships with our current customer base.

Costs and expenses (in thousands):

	2010	2009	$ Change	% Change
Cost of sales	$2,473	$1,529	$ 944	62 %
Selling, general and administrative	1,722	1,959	(237)	(12)%
Product development and research	655	269	386	144 %
Totals costs and expenses	$4,850	$3,757	$1,093	29 %

Cost of sales increased for the six months ended June 30, 2010 as a result of the increase in product sales and reserves for obsolete and expired inventory. Cost of sales as a percent of product sales can vary depending on product mix. Cost of sales, excuding inventory reserves, as a percentage of product sales was 101% for the six month period ended June 30, 2010 and was the same for the comparable period in 2009. The cost of sales percentage is in line with that of the previous year, if inventory reserves are excluded from the computation.

Selling, general and administrative expenses for the six month period ended June 30, 2010 decreased as compared to the same period in 2009 as the prior period included a severance expense of $341,000 for our former President and Chief Executive Officer per his 2009 separation agreement, a decrease of $243,500 in consulting fees, a decrease in recruiting fees of $74,500, a decrease of $18,000 in shows and exhibits, offset by an increase in employees compensation payable in stock of $85,800, an increase of $227,500 in salaries, an increase in expense from the issuance of stock options of $20,300, an increase of $41,200 in travel related expenses, an increase of $16,900 in employee benefit expenses and an increase of $4,800 in shareholder relations expenses.

Product development and research expenses for the six months ended June 30, 2010 increased as compared to the same period for 2009 due to an increase of $36,300 in supplies and outside testing, an increase of $41,500 in consulting fees, $213,900 attributable to the establishment of a fully staffed Quality Analytical department, an increase in recruiting fees of $13,500, an increase in professional fees of $36,000 and an increase in expense from the issuance of stock options of $44,800.

Interest (Expense) Income (in thousands):

	2010	2009	$ Change	% Change
Interest Expense	$ (1)	$(958)	$(957)	(100)%
Interest Income	$ 2	$ 7	$ (5)	(71)%

Interest expense decreased for the six months ended June 30, 2010 as compared to the same period in 2009 due to approximately $943,000 of accrued interest and amortization of debt discount and debt issuance costs related to the convertible notes payable issued in connection with the Offering (see Footnote 11 to the Company s Consolidated Financial Statements) that were included in interest expense in 2009. Interest income decreased for the six months ended June 30, 2010 as compared to the same period in 2009 due to lower average cash balances in 2010.

Net loss attributable to common stockholders (in thousands, except per share numbers):

	2010	2009	$ Change	% Change
Net loss attributable to common stockholders	$ (2,223)	$ (5,460)	$ (3,237)	(59)%
Net loss per share	(.13)	(.36)	(.23)	(64)%

The decrease in net loss attributable to common stockholders for the six months ended June 30, 2010 as compared to the same period in 2009 is due to approximately $943,000 of accrued interest and amortization of debt discount and debt issuance costs related to the convertible notes payable issued in connection with the 2009 Offering (see Footnote 11 to our Consolidated Financial Statements) that were included in interest expense and the dividend accreted for beneficial conversion features of $2,488,000 for 2009, as well as the items noted above.

Liquidity and Capital Resources

The Company's operating activities used $2,261,000 of cash during the six months ended June 30, 2010 compared to $1,364,000 used in the comparable period of 2009. The use of cash for the six months ended June 30, 2010 was substantially a result of the net loss for the period, and for the same period of 2009 was substantially a result of the net loss for the period offset by non-cash expense items.

The Company s investing activities used $114,000 of cash in the six months ended June 30, 2010 compared to $437,000 of cash used in investing activities in the first six months of 2009. The funds used for the period ended June 30, 2010 were for additional equipment and related services for the analytical area, and the funds used for the period ended June 30, 2009 were for additional equipment and improvements for the packaging and filling lines.

The Company's financing activities provided $1,509,000 of cash in the six months ended June 30, 2010 compared to $5,280,000 provided in the six months ended June 30, 2009. The cash provided for the six month period ended June 30, 2010 is primarily the proceeds of the Series C Convertible Preferred Stock financing as more fully described in Footnote 12 to the Company s Consolidated Financial Statements. The cash provided for the six month period ended June 30, 2009 is mainly from the proceeds of the Series B-1 Convertible Preferred Stock financing and the Note Payable as more fully described in Footnote 11 to the Company s Consolidated Financial Statements.

The Company s principal sources of liquidity are cash and cash equivalents of approximately $258,000 at June 30, 2010 and future cash from operations. The Company had working capital of $1,551,000 at June 30, 2010.

We believe that we will need to be supplemented by an additional capital infusion in the fourth quarter of 2010 to support our long term business plan. However, the trading price of our stock, our pending application to continue listing our stock on NYSE Amex, a downturn in the U.S. equity and debt markets and the negative economic trends in general could make it more difficult to obtain financing through the issuance of equity securities or otherwise. There can be no assurance that such financing will be available on terms acceptable to the Company, or at all. In the event we do not obtain such financing, we will look to accelerate our partnering opportunities, thereby deflecting a portion of development costs, while delaying certain projects to further avoid costs.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements as of the date of this report.

Critical Accounting Policies and Estimates

IGI s condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, which require management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates.

Please refer to the Company s Form 10-K for the year ended December 31, 2009 for a complete list of all Critical Accounting Policies and Estimates. See also Footnote 3 to the Company s Consolidated Financial Statements.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and
Principal Financial and Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2010. Based on that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that, as of June 30, 2010, the Company s disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our second quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. Legal Proceedings

On April 22, 2010, a complaint for patent infringement was filed by Ferndale Laboratories Inc. against PruGen, Inc. and the Company in the United States District Court Eastern District of Michigan (Detroit) relating to U.S. Patent No. 5,635,497 (the '497 Patent) entitled Topical Application Compositions. Ferndale is the licensee of the 497 Patent, which is owned by Astrellas Pharma Europe B.V. The Complaint alleges infringement of the 497 Patent by PruGen and the Company in the manufacturing, using, selling and offering to sell their PruVel product. The Company is identified in the Complaint as PruGen s contract-manufacturer of the PruVel product. Ferndale is seeking unspecified money damages and injunctive relief.

On June 30, 2010, discussions and negotiations among Ferndale, PruGen and the Company resulted in a Settlement Agreement between the parties and the withdrawal of the complaint by Ferndale against PruGen Inc. and the Company. Pursuant to the Settlement Agreement, IGI agreed not to manufacture any product or composition which falls within the 497 Patent.

Part of the Settlement Agreement also requires PruGen and the Company to destroy any inventory of the PruVel product in their possession after June 30, 2010 and to provide evidence of destruction to Ferndale. The Company complied with the Settlement Agreement and provided supporting evidence to Ferndale to the effect that it did not have any inventory of the PruVel product and that was duly acknowledged by Ferndale. The Company is presently awaiting the final letter from Ferndale confirming the resolution of the claim.

We are involved from time to time in claims which arise in the ordinary course of business. In the opinion of management, we have made adequate provision for potential liabilities, if any, arising from any such matters. However, litigation is inherently unpredictable, and the costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in any such matters, and developments or assertions by or against us relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on our business, financial condition and operating results.

ITEM 1A. Risk Factors

Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2009, as amended or supplemented by our quarterly reports on Form 10-Q, includes a detailed discussion of risks and uncertainties which could adversely affect our future results. Except as set forth below, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2009, as amended or supplemented by our quarterly reports on Form 10-Q, have not materially changed.

We rely on a limited number of customers for a large portion of our revenues.

We depend on a limited number of customers for a large portion of our revenue. For the three months ended June 30, 2010 and 2009, one of our customers accounted for 46% and two of our customers accounted for 26% of our revenue, respectively. For the six months ended June 30, 2010 and 2009, two of our customers accounted for 51% and three of our customers accounted for 36% of our revenue, respectively. The loss of one or more of these customers could have a significant impact on our revenues and harm our business and results of operations.

We have a history of losses and cannot assure you that we will become profitable, and as a result, we may have to cease operations and liquidate our business.

Our expenses have exceeded our revenue in each of the last seven years, and no net income has been available to common stockholders during each of these years. As of June 30, 2010, our stockholders equity was $4.9 million and we had an accumulated deficit of $34 million. Our future profitability depends on revenue exceeding expenses, but we cannot assure you that this will occur. If we do not become profitable or continue to raise external financing, we could be forced to curtail operations and sell or liquidate our business, and you could lose some or all of your investment.

Risks Related to Our Securities

Shares of our common stock are relatively illiquid which may affect the trading price of our common stock.

For the six months ended June 30, 2010, the average daily trading volume of our common stock on the NYSE Amex was approximately 9,665 shares. As a result of our relatively small public float, our common stock may be less liquid than the stock of companies with broader public ownership. Among other things, trading of a relatively small volume of our common stock may have a greater impact on the trading price for our shares than would be the case if our public float were larger.

If we fail to meet the continued listing standards of the NYSE Amex our common stock could be delisted and our stock price could suffer.

On May 6, 2008, we were notified by NYSE Amex that we were below certain of the NYSE Amex continued listing standards. Specifically, we are required to reflect income from continuing operations and/or net income in one of our five most recent fiscal years and a minimum of $6 million in stockholders equity to remain listed on the exchange. We had net income from continuing operations in our 2002 fiscal year, but had net losses and losses from continuing operations in each of our 2003, 2004, 2005, 2006, 2007, 2008 and 2009 fiscal years. Our stockholders equity at June 30, 2010 was $4.9 million.

On June 8, 2008, we submitted a plan to NYSE Amex for compliance with the continued listing standards. On July 15, 2008, NYSE Amex notified us of its acceptance and granted us an extension until May 6, 2009 to regain compliance subject to periodic review by NYSE Amex during the extension period.

On March 13, 2009, we completed a $6,000,000 private placement offering with certain investment funds affiliated with Signet Healthcare Partners, G.P. In recognition of our efforts in connection with the offering, NYSE Amex granted us an extension from May 6, 2009 until May 31, 2009 to regain compliance with these continued listing standards.

On June 19, 2009, we were notified by NYSE Amex that we had resolved its continued listing deficiencies and would retain our status as a listed issuer on NYSE Amex. However, as of March 31, 2010 and December 31, 2009, our stockholders equity had again fallen below the $6 million threshold.

On May 25, 2010, we were notified by NYSE Amex that we were below certain of the NYSE Amex continued listing standards. Specifically, we are required to reflect income from continuing operations and/or net income in one of our five most recent fiscal years and a minimum of $6 million in stockholders equity to remain listed on the exchange. We had net income from continuing operations in our 2002 fiscal year, but had net losses and losses from continuing operations in each of our 2003, 2004, 2005, 2006, 2007, 2008 and 2009 fiscal years. Our stockholders equity at June 30, 2010 was $4.9 million.

On June 24, 2010, we submitted a plan to NYSE Amex for compliance with the continued listing standards.

On August 6, 2010, NYSE Amex notified IGI that it accepted the Company s plan of compliance and granted IGI an extension until February 25, 2011 to regain compliance with the continued listing standards. The Company will be subject to periodic review by NYSE Amex Staff during the extension period. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period could result in IGI being delisted from the NYSE AMEX.

If we fail to meet the continued listing standards, our common stock could be delisted and our stock price could suffer. A delisting of our common stock could negatively impact us by further reducing the liquidity and market price of our common stock and the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing.

Our principal stockholders, directors and executive officers own a significant percentage of our stock and will be able to exercise significant influence over our affairs.

Our current principal stockholders, directors and executive officers beneficially own approximately 75% of our outstanding capital stock entitled to vote. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibit Number	Description
10.1#	IGI Laboratories, Inc. 2009 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on May 24, 2010).
10.2#	Amended and Restated Employment Agreement dated April 1, 2010 between IGI Laboratories, Inc. and Charles Moore (incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q filed on May 17, 2010).
31.1	Certification of the President 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 Chief Financial 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.
32.1	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 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 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

# Indicates management contract or compensatory plan.

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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 Laboratories, Inc.

Date: August 16, 2010	By:	/s/ Charles E. Moore Charles E. Moore President and Chief Executive Officer
Date: August 16, 2010	By:	/s/Philip S. Forte Philip S. Forte Chief Financial Officer

Exhibit Index

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