IGI INC
Form 10-K
April 12, 2005

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number 001-08568

IGI, Inc.
(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 Ave., Buena, NJ	08310
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

The aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2004 (based on the closing stock price on the American Stock Exchange) on such date was approximately $17,490,000.

As of March 15, 2005, there were 11,732,880 shares of common stock outstanding.

Documents Incorporated By Reference

Certain information contained in the definitive Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 23, 2005 is incorporated by reference into Part III hereof.

PART I

ITEM 1. BUSINESS

Overview

IGI, Inc. ("IGI" or the "Company") was incorporated in Delaware in 1977. Its executive offices are at 105 Lincoln Avenue, Buena, New Jersey. The Company is currently engaged in the production and marketing of cosmetics and skin care (consumer) products. Beginning in the first quarter of 2005, the Company will also be engaged in the metal finishing business, specifically nickel boride, using the UltraCem technology (refer to Item 7 for more detail).

In December 1995, IGI distributed its ownership of its majority-owned subsidiary, Novavax, Inc. ("Novavax"), in the form of a tax-free stock dividend, to IGI stockholders. Novavax had comprised the biotechnology business segment of IGI. In connection with the distribution, the Company paid Novavax $5,000,000 in return for a ten-year license (the "IGI License Agreement") entitling IGI to the exclusive use of the Novasome(R) lipid vesicle encapsulation and certain other technologies ("Microencapsulation Technologies" or collectively the "Technologies") in the fields of (i) animal pharmaceuticals, biologicals and other animal health products; (ii) foods, food applications, nutrients and flavorings; (iii) cosmetics, consumer products and dermatological over-the-counter and prescription products (excluding certain topically delivered hormones); (iv) fragrances; and (v) chemicals, including herbicides, insecticides, pesticides, paints and coatings, photographic chemicals and other specialty chemicals, and the processes for making the same (collectively, the "IGI Field"). IGI has the option, exercisable within the last year of the ten-year term, to extend the exclusive license for an additional ten-year period for $1,000,000. Novavax has retained the right to use the Technologies for applications outside the IGI Field, mainly human vaccines and pharmaceuticals.

Consumer Products Business IGI's Consumer Products business is primarily focused on the continued commercialization of the Microencapsulation Technologies for skin care applications. These efforts have been directed toward the development of high quality skin care products that the Company markets through collaborative arrangements with major cosmetic and consumer products companies. IGI plans to continue to work with cosmetics, food, personal care products and over-the-counter ("OTC") pharmaceutical companies for commercial applications of the Microencapsulation Technologies. Because of their ability to encapsulate skin protective agents, oils, moisturizers, shampoos, conditioners, skin cleansers and fragrances and to provide both a controlled and a sustained release of the encapsulated materials, Novasome(R) lipid vesicles are well-

suited to cosmetics and consumer product applications. For example, Novasome(R) lipid vesicles may be used to deliver moisturizers and other active ingredients to the deeper layers of the skin or hair follicles for a prolonged period; to deliver or preserve ingredients which impart favorable cosmetic characteristics described in the cosmetics industry as "feel," "substantivity," "texture" or "fragrance" and to deliver normally incompatible ingredients in the same preparation, with one ingredient being shielded or protected from the other by encapsulation within the Novasome(R) vesicle.

The Company produces Novasome(R) vesicles for various skin care products. Pursuant to the Company's agreement with Estee Lauder, Estee Lauder utilizes the Novasome technology in their products such as "All You Need," "Re-Nutriv," "Virtual Skin," "100% Time Release Moisturizer," "Resilience," "Surface Optimizing," "Vibrant" and others. Sales to Estee Lauder accounted for $1,248,000 or 35% of 2004 revenues $1,812,000 or 51% of 2003 revenues and $2,629,000 or 60% of 2002 revenues. Also, the Company received $184,000 and $28,000 of royalty income in 2004 and 2003, respectively, from Estee Lauder pursuant to the Company's agreement with Estee Lauder for various Novasome(R) vesicles skin care products produced by Estee Lauder.

In February 2001, the Company signed a new manufacturing and supply agreement and an assignment of trademark agreement for the WellSkin(tm) line of skin care products with Genesis Pharmaceutical, Inc. The manufacturing and supply agreement expires on December 13, 2005 and contains two ten-year renewal options. The Company received a lump sum payment of $525,000 for the assignment of the trademark, which is being recognized ratably over the term of the arrangement. The Company recognized $105,000 of income related to this agreement in each of the years ended December 31, 2004, 2003 and 2002.

The Company entered into a sublicense agreement with Johnson & Johnson Consumer Products, Inc. ("J&J") in 1995. The agreement provided J&J with a sublicense to produce and sell Novasome(R) microencapsulated retinoid products and provides for the payment of royalties on net sales of such products. J&J began selling such products and making royalty payments in the first quarter of 1998. The Company recognized $385,000, $488,000 and $714,000 of royalty income related to this agreement for the years ended December 31, 2004, 2003 and 2002, respectively. As noted above, royalties are calculated on net sales of microencapsulated retinoid products. The sales of these products have been declining; we anticipate this trend will continue in the future.

In August 1998, the Company granted Johnson & Johnson Medical ("JJM"), a division of Ethicon, Inc., worldwide sublicense rights for the use of the Novasome(R) technology for certain products and distribution channels. The agreement provided for JJM to pay the Company $300,000 as well as future royalty payments based on JJM's sales of sublicensed products. The Company

recognized $30,000, $35,000 and $32,000 of royalty income in 2004, 2003 and 2002, respectively, related to the agreement. In March of 2002, the agreement between the Company and JJM was amended stating that JJM is no longer required to make minimum payments and the sublicense has been converted to a non-exclusive worldwide sublicense with the exception of Japan, which will remain exclusive. If the amount of royalties paid by JJM equals or exceeds $200,000 in any year, the following calendar year will

become an exclusive worldwide agreement and will remain so until royalties fall below that amount.

In July 2001, the Company entered into a Research, Development and Manufacturing Agreement with Apollo Pharmaceutical (Canada), Inc. ("Apollo"), previously known as Prime Pharmaceutical Corporation. The purpose of the agreement was to develop a facial lotion, a facial creme and scalp application for the treatment of psoriasis. The project has been completed in stages with amounts being paid to the Company with the successful completion of each stage. In addition, the Company has agreed to rebate $3.60 per kilogram for the first 12,500 kilograms of product manufactured for and sold to Apollo. During 2002 and 2003, there was no activity between the Company and Apollo due to a change in management at Apollo. In 2004, the Company resumed activity with Apollo and recognized $137,000 of product sales.

In November 2002, the Company entered into a Manufacturing Service Agreement with Desert Whale Jojoba Company, Inc. The purpose of this agreement was to develop and manufacture jojobasomes to be used as a personal care product. This project was in a developmental stage through 2002. The Company recognized $7,000 of product sales related to this project in 2003. The Company is no longer doing business with Desert Whale Jojoba Company, Inc.

In July 2004, the Company, in order to allow growth and new business opportunities, renegotiated its contract with Estee Lauder, a significant customer. The goal of the Company was to lift the exclusivity it had under the prior agreement with Estee Lauder that did not allow the Company to do business with competitors of Estee Lauder. The exclusivity provision was removed from the agreement, the terms of which are as follows: Estee Lauder is manufacturing all Novasome(R) and non-Novasome(R) products at their facility and is paying the Company a royalty per kilogram on all Novasome(R) products manufactured by Estee Lauder, including all new products developed, plus they paid to the Company a one time payment of $100,000, which was paid in 2004 for the use of the Novamix machine. The Company's contract manufacturing of Estee Lauder non-Novasome(R) products, which accounted for $559,000 of the $1,248,000 (i.e., 45%) in revenues in 2004, terminated contractually on June 30, 2004, without any required future royalties or other payments to be received by the Company on any non-Novasome(R) products manufactured by Estee Lauder. However, Estee Lauder may from time to time require the assistance of IGI to manufacture Novasome(R) and non-Novasome(R) products at Estee Lauder's request. In addition, during the six month period from January through June 2004, the Company agreed to provide Estee Lauder's contract manufacturing services at a reduced price of $2.00 per kilo, as compared to the prior rate of $3.03 per kilo.

Metal Plating Business In February 2004, the Company signed a license agreement with Universal Chemical Technologies, Inc. ("UCT") to utilize its patented technology for an electroless nickel boride metal finishing process. This is a new venture for the Company and the Company has had initial capital expenditures of approximately $782,000 in order to set up the operations. The Company has also hired two new employees to oversee the facility operations and for sales and marketing of the product. The Company has an exclusive license within a 150 mile radius of its facility for commercial and military applications. The Company believes there is the possibility of revenue and profit growth using this application, but there is no guarantee that it will materialize. Frank Gerardi, the Company's Chairman and Chief Executive Officer, as well as a major IGI stockholder, has personally invested $350,000 in UCT, which represents less than a 1% ownership interest in UCT. We anticipate additional capital expendirures of approximately $120,000 in 2005.

Other Novasome(R) Lipid Vesicles Developments

On July 23, 2003, Dr. Michael F. Holick, a professor of Medicine, Dermatology, Physiology and Biophysics at the Boston University School of Medicine, was appointed to head IGI's newly formed Scientific Advisory Board. Dr. Holick's many accomplishments, including the discovery of the active form of Vitamin D, and his extensive research in dermatology, combined with IGI's exclusive use of the patented Novasome(technologies in its delivery systems, should enable the Company to further advance IGI's position in the topical dermatologics market.

On August 11, 2003, researchers at Boston University Medical Center, led by Dr. Holick, reported the first successful development of a topical peptide drug for the treatment of psoriasis. The parathyroid hormone analog PTH (1-34) was successfully encapsulated in Novasome(R) A cream, which enhanced the absorption of this peptide drug into human skin. This study appeared in the August 2003 issue of the British Journal of Dermatology. The study conducted a randomized, self-controlled double-blinded trial of 15 adult patients with chronic plaque psoriasis. Each patient applied to one lesion Novasome(R) A cream and a comparable lesion with Novasome(R) A cream that contained PTH (1-34). The psoriatic lesions treated with PTH (1-34) showed marked improvement in scaling, erythema and in duration. There was a 67.3% improvement in the global severity score for the lesion treated with Novasome(R) A cream containing PTH (1-34) compared to the placebo-treated lesion, which only showed a 17.8% improvement. In an open trial, ten patients topically applied PTH (1-34) in Novasome(R) A cream on all of their lesions in a step wise manner. A Psoriasis Area and Severity Index score analysis of all patients revealed an improvement of 42.6% (p <0.02). None of the patients experienced

hypercalcemia or hypercalciuria or developed any side effects with the medication. The study concluded that patients who were resistant to at least one standard therapy for psoriasis had an improvement in their psoriasis when they applied PTH (1-34) in Novasome(R) A cream to their lesion. No patients experienced any significant adverse events. This pilot study suggests that topical PTH (1-34) encapsulated in Novasome(R) A cream is a safe and effective novel therapy for psoriasis. This was the first demonstration for the successful encapsulation of a peptide drug for the treatment of a skin disease.

On August 26, 2003, Dr. Holick and his team of scientists at Boston University Medical Center reported that in animal studies a parathyroid hormone related peptide antagonist [PTH (7-34)] stimulated epidermal proliferation and hair growth in mice. The biologic action of parathyroid hormone (PTH) related peptide (PTHrP) in normal skin was investigated in cultured human keratinocytes and in SKH-1 hairless mice. The results indicated that the PTHrP receptor antagonist PTH (7-34) stimulated epidermal DNA synthesis in SKH-1 hairless mice by 144%. In addition, these hairless mice had marked increase in the number (146%) and length (80%) of hair shafts, respectively. They also found that the PTHrP receptor agonist [PTH (1-34)] was effective in inhibiting DNA synthesis in the epidermis (Holick, M.F., Ray, S., Chen, T.C., Tian, X., and Persons, K.S., A Parathyroid Hormone Antagonist Stimulates Epidermal Proliferation and Hair Growth in Mice, Proc. Nat'l. Acad. Sci, Vol. 91, 8014-8016 (1994)). These results provide evidence that PTHrP may be an important regulator in normal skin physiology and that its receptor agonists and antagonists have potentially wide therapeutic applications in the treatment of

hyperproliferative skin disorders and aging skin and could also be effective in stimulating and maintaining hair growth.

Chemotherapy-induced alopecia is one of the fundamental unsolved problems of clinical oncology, which is driven in part by abnormalities induced by the chemotherapy on the hair follicle cycle. Dr. Holick and his team have explored the therapeutic potential of PTHrP receptor agonists and antagonists in a mouse model of chemotherapy (cyclophosphamide) induced alopecia. Mice that received PTH (7-34) significantly mitigated the hair follicular response to cyclophosphamide. Furthermore, there was more rapid hair regrowth of more robust hair follicles, compared to the animals that received placebo and chemotherapy (Peters, Eva, M.J., Foitzik, K., Paus, R., Ray, S., and Holick, M.F., A New Strategy for Modulating Chemotherapy-Induced Alopecia, Using PTH/PTHrP Receptor Agonist and Antagonist, J. Invest. Dermatol. 117:173-178; 2001).

This study is an established animal model for chemotherapy-induced alopecia, which closely mimics human chemotherapy induced alopecia, suggests the possibility that PTHrP receptor agonists and antagonists can be developed as novel therapeutic agents in chemotherapy-induced alopecia. Based on these findings, a study is planned to determine whether topical PTH (7-34) formulated in Novasome(R) cream will be effective in mitigating chemotherapy induced alopecia in breast cancer patients and help accelerate more robust hair regrowth.

On September 26, 2003, the Company entered into an employment agreement with Dr. Holick where he will serve as the Company's Vice President of Research and Development and Chief Scientific Officer for a term of three years.

On December 24, 2003, the Company entered into a License Agreement with Dr. Holick and A&D Bioscience, Inc., a Massachusetts corporation wholly owned by Dr. Holick (collectively referred to as "Holick"), whereby Holick granted an exclusive license to the Company to all his rights to the parathyroid hormone related peptide technologies and the glycoside technologies (referred to as "PTH Technologies" and "Glycoside Technologies", respectively) that he developed for various clinical usages, including treatment of psoriasis, hair loss and other skin disorders. In consideration for entering into the License Agreement, Holick received up-front a $50,000 non-refundable payment from the Company. He also received a grant of 300,000 stock options under the Company's authorized stock option plans. Holick was also entitled to receive a $236,000 milestone payment that was contingent on the execution of a sublicense agreement between the Company and a third-party for the licensed technology.

On April 19, 2004, IGI signed a sublicense agreement with Tarpan Therapeutics, Inc. ("Tarpan") for the PTH (1-34) technology under which the third party will be obligated at its sole cost and expense to develop and bring the PTH (1-34) technology to market as timely and efficiently as possible, which includes its sole responsibility for the cost of preclinical and clinical development, research and development, manufacturing, laboratory and clinical testing and trials and marketing of products. In addition, the sublicense agreement calls for various payments to IGI throughout the term. IGI was paid a lump sum sublicense fee of $300,000, from which amount IGI paid the sum of $232,000 to Dr. Holick, representing the $236,000 payment due to Dr. Holick in accordance with the terms of his License Agreement with the Company, net of $4,000 of additional legal fees. Certain subsequent royalty payments received by the Company under the sublicense agreement will be shared with Holick after the Company has recovered any payments previously made to Holick under the License Agreement and an amount equal to the value of the options received

by Holick under the License Agreement. The Company is responsible for any and all costs, fees and expenses for the prosecution and oversight of any intellectual property rights related to the licensed technologies. The term of the License Agreement is the longer of twenty (20) years or the life of each of the patents thereunder. The License Agreement, however, granted Holick the right to terminate the Company's license to (i) the Glycoside Technologies if the Company did not sublicense the Glycoside Technologies within 90 days of the effective date of the License Agreement, and (ii) the PTH Technologies if the Company did not sublicense the PTH Technologies within 90 days of the effective date of the License Agreement. As noted above, the Company entered into a sublicense agreement for the PTH Technologies on April 19, 2004. The Company did not, however, sublicense the Glycoside Technologies within the 90 day period.

As a result, Holick terminated the Company's license to the Glycoside Technologies on April 5, 2004. The Company is engaged in discussions with the same third party entity for a similar sublicense for the PTH (7-34) technology.

The $50,000 payment to Holick was expensed in the third quarter of 2003 and the $236,000 payment to Holick was expensed in the second quarter of 2004 because the PTH Technologies are in a preliminary development phase and do not have any readily determinable alternative future use. The other consideration called for under the License Agreement, such as amounts advanced for the prosecution and oversight of any intellectual property rights related to the licensed technologies which amounted to $27,500 and the fair value of the 300,000 stock options granted to Holick, which amounted to $520,000, was also expensed by the Company in the second quarter of 2004 (included in product development and research expenses in the consolidated statement of operations), when the sublicense agreement with Tarpan was executed and Holick could no longer terminate the license agreement as it relates to the PTH Technologies and the options became fully vested. The fair value of the stock options was calculated under SFAS No. 123 using the Black -Scholes model.

On July 27, 2004, the Company signed an exclusive license agreement with the University of Massachusetts Medical School (University) for the patented invention entitled "The Treatment of Skin with Adenosine or Adenosine Analogs." The Company intends to encapsulate adenosine or adenosine analogs in Novasome(R) for use in the skin care field. As consideration of the rights granted in this agreement, the Company made nonrefundable payments of $25,000 upon the execution of this agreement and $25,000 in September 2004. Both of these payments were expensed during the third quarter of 2004 and are included in product development and research expenses. The agreement also calls for minimum royalty payments of $25,000 per year commencing on July 27, 2007. If the Company enters into a sublicense agreement with a third party, the Company must pay the University 50% of all sublicense income.

Discontinued Operations

On May 31, 2002, the stockholders 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 buyer assumed liabilities of approximately $986,000, and paid the Company cash in the amount of $16,254,000. The Company's results reflect a $12,433,000 gain on the sale of the Companion Pet Products division for the year ended December 31, 2002. The gain is net of

direct costs incurred by the Company in connection with the sale and the reduction in the purchase price resulting from post-closing adjustments. For the year ended December 31, 2003, the Company had a gain on the disposal of discontinued operations of $435,000, which primarily consisted of a net gain of $169,000 for an insurance settlement, net of legal costs, for damages incurred by the Company as a result of a heating oil leak at the Companion Pet Products manufacturing site and a net gain of $288,000 on the sale of the former Companion Pet Products manufacturing site land and building on December 18, 2003. The Companion Pet Products division incurred a loss of $523,000 for the year ended December 31, 2002. The results for the year ended December 31, 2002 included an impairment charge of $630,000 related to the Companion Pet Products warehouse. Upon the sale of the Companion Pet Products division, the Company paid all of its debt and interest owed to Fleet Capital Corporation ("Fleet") and American Capital Strategies, Ltd. ("ACS"). As a result, the Company incurred a $2,654,000 loss from early extinguishment of debt in connection with the prepayment fees paid to Fleet and ACS and the write-off of the ACS debt discount.

During 2001, the Company recorded non-recurring charges related to the cessation and shutdown of the manufacturing operations at the Companion Pet Products facility. The Company applied to the New Jersey Economic Development Authority and the New Jersey Department of Environmental Protection for a grant and loan to provide partial funding for the costs of investigation and remediation of the environmental contamination discovered at the Companion Pet Products facility. On June 26, 2001, the Company was awarded an $81,000 grant and a $246,000 loan. The $81,000 grant was received in the third quarter of 2001. The loan, which required monthly principal payments, had a term of ten years at a rate of interest of 5%. The Company received funding of $45,000 and $182,000 from the loan during 2003 and 2002, respectively. On December 18, 2003, the loan was paid in full upon the sale of the former Companion Pet Products facility, which had served as collateral for the loan.

Manufacturing

The Company's manufacturing operations include bulk manufacturing and testing of cosmetics, dermatologics, emulsions and shampoos. The raw materials included in these products are available from several suppliers. The Company produces quantities of Novasome(R) lipid vesicles adequate to meet its current and foreseeable needs.

Research and Development

The Company's consumer products development efforts are directed toward Novasome(R) encapsulation to improve performance and efficacy of pesticides, specialty and other chemicals, biocides, cosmetics, consumer products, flavors and dermatologic products. Total product development and research expenses were $1,727,000, $762,000 and $549,000 in 2004, 2003 and 2002, respectively.

Patents

All of the names of the Company's major products are registered in the United States and all significant markets in which the Company sells its products. The Company maintains patents in various countries covering certain of its products. Under the terms of the 1995 IGI License Agreement, the Company has an exclusive ten-year license to use the Technologies licensed from Novavax in the IGI Field. Novavax holds 44 U.S.

patents and a number of foreign patents covering the Technologies licensed to IGI.

Government Regulation and Regulatory Proceedings

Government Regulations

In the United States, pharmaceuticals, including over-the-counter products that are manufactured by the Company are subject to rigorous Food and Drug Administration ("FDA") regulations, including pre-clinical and clinical testing. The process of completing clinical trials and obtaining FDA approvals for a new drug often takes a number of years, requires the expenditure of substantial resources and is often subject to unanticipated delays. There can be no assurance that any product will receive such approval on a timely basis, or at all.

In addition to product approval, the Company may be required to obtain a satisfactory inspection by the FDA covering its manufacturing facilities before a product can be marketed in the United States. The FDA will review the manufacturing procedures and inspect the facilities and equipment for compliance with applicable rules and regulations. Any material change by the Company in the manufacturing process, equipment or location would necessitate additional review and approval.

Whether or not FDA approval has been obtained, approval of a pharmaceutical product by comparable governmental authorities in foreign countries must be obtained prior to the commencement of clinical trials and subsequent marketing of such product in such countries. The approval procedure varies from country to country, and the time required may be longer or shorter than that for FDA approval. Although there are some procedures for unified filing for certain European countries, in general, each country has its own procedures and requirements.

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

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 experienced in the industry and possess far greater 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.

Employees

At March 15, 2005, the Company had 20 full-time employees. Two of

these employees were in marketing, distribution and customer support, five were in manufacturing, seven were in research and development, four were in executive, finance and administrative functions, and two were in the metal plating operations. The Company has no collective bargaining agreement with its employees, and believes that its employee relations are good.

Executive Officers of the Company

The following table sets forth (i) the name and age of each executive officer of the Company as of March 30, 2005, (ii) the position with the Company held by each such executive officer and (iii) the principal occupation held by each executive officer for at least the past five years.

Name	Age	Officer Since	Principal Occupation and Other Business Experience During Past Five Years
Frank Gerardi	60	2003	Appointed Chief Executive Officer on September 5, 2003 and Chairman on June 27, 2003. President of Univest Management, Inc., a management consulting company since 1986; member of the New York Stock Exchange from 1969 to 1986.
Dr. Michael F. Holick	59	2003	Appointed Vice President of Research and Development and Chief Scientific Officer in September 2003. Dr. Holick has been a Professor of Medicine, Physiology and Biophysics at Boston University School of Medicine since 1987.
Nadya Lawrence	36	1995	Appointed Vice President of Operations in 2001. Prior to that, Ms. Lawrence served as the Company's R&D Technical Director and R&D Manger from 1995 to 2001.
Carlene Lloyd	32	2004	Appointed Vice President of Finance in July 2004. Prior to that, Ms. Lloyd served as the Company's Controller and Senior Accountant from 1998 to 2004.

ITEM 2. PROPERTIES

The Company's executive administrative offices are located in Buena, New Jersey, in a 25,000 square foot facility built in 1995, which the Company owns. This facility is also used for production, product development, marketing and warehousing for the Company's cosmetic, dermatologic and personal care products.

ITEM 3. LEGAL PROCEEDINGS

Gallo Matter

As previously reported by the Company in its historical filings with

the Securities and Exchange Commission ("SEC"), including without limitation its Form 10-K for the year ending December 31, 1999, for most of 1997 and 1998 the Company was subject to intensive government regulatory scrutiny by the U.S. Departments of Justice, Treasury and Agriculture. In June 1997, the Company was advised by the Animal and Plant Health Inspection Service ("APHIS") of the United States Department of Agriculture ("USDA") that the Company had shipped quantities of some of its poultry vaccine products without complying with certain regulatory and record keeping requirements. The USDA subsequently issued an order that the Company stop shipment of certain of its products. Shortly thereafter, in July 1997, the Company was advised that the USDA's Office of Inspector General had commenced an investigation into possible violations of the Virus Serum Toxin Act of 1914 and alleged false statements made to APHIS. In April 1998, the SEC advised the Company that it was conducting an informal inquiry and requested information and documents from the Company, which the Company voluntarily provided to the SEC.

Based upon these events, the Board of Directors caused an immediate and thorough investigation of the facts and circumstances of the alleged violations to be undertaken by independent counsel. The Company continued to refine and strengthen its regulatory programs with the adoption of a series of compliance and enforcement policies, the addition of new managers of Production and Quality Control and a new Senior Vice President and General Counsel. At the instruction of the Board of Directors, the Company's General Counsel established and oversaw a comprehensive employee training program, designated in writing a Regulatory Compliance Officer, and established a fraud detection program, as well as an employee "hotline." The Company continued to cooperate with the USDA and SEC in all aspects of their investigation and regulatory activities. On March 13, 2002, the Company reached a settlement with the staff of the SEC to resolve matters arising with respect to the investigation of the Company. Under the settlement, the Company neither admitted nor denied that the Company violated the financial reporting and record-keeping requirements of Section 13 of the Securities and Exchange Act of 1934, as amended, for the three years ended December 31, 1997. Further, the Company agreed to the entry of an order to cease and desist from any such violation in the future. No monetary penalty was assessed.

As a result of its internal investigation, in November 1997, the Company terminated the employment of John P. Gallo as President and Chief Operating Officer for willful misconduct. On April 21, 1998, the Company instituted a lawsuit against Mr. Gallo in the New Jersey Superior Court. The lawsuit alleged willful misconduct and malfeasance in office, as well as embezzlement and

related claims (referred to as the "IGI Action"). On April 28, 1998, Mr. Gallo instituted a separate action against the Company and two of its Directors, Edward Hager, M.D. and Constantine Hampers, M.D., alleging that he had been wrongfully terminated from employment and further alleging wrongdoings by the two Directors (referred to as the "Gallo Action"). The Court subsequently ordered the consolidation of the IGI Action and the Gallo Action (collectively referred to as the "Consolidated Action").

In response to these allegations, the Company instituted an investigation of the two Directors by an independent committee ("Independent Committee") of the Board assisted by the Company's General Counsel. The investigation included a series of interviews of the Directors, both of whom cooperated with the Company, and a review of

certain records and documents. The Company also requested an interview with Mr. Gallo who, through his counsel, declined to cooperate. In September 1998, the Independent Committee reported to the Board that it had found no credible evidence to support Mr. Gallo's claims and allegations and recommended no further action. The Board adopted the recommendation.

The Company denied all allegations plead in the Gallo Action and asserted all claims in the Gallo Action to be without merit. The Company did not reserve any amount relating to such claims. The Company tendered the claim to its insurance carriers, but was denied insurance coverage for both defense and indemnity of the Gallo Action.

In July 1998, the Company sought to depose Mr. Gallo in connection with the Consolidated Action. Through his counsel, Mr. Gallo asserted his Fifth Amendment privilege against self-incrimination and advised that he would not participate in the discovery process until such time as a federal grand jury investigation, in which he was a target, was concluded. In January 1999, at the suggestion of the Court, the Company and Mr. Gallo agreed to a voluntary dismissal without prejudice of the Consolidated Action, with the understanding that the statute of limitations was tolled for all parties and all claims, and that the Company and Mr. Gallo were free to reinstate their suits against each other at a later date, with each party reserving all of their rights and remedies against the other.

As of the date hereof, neither the Company nor Mr. Gallo have filed suit against each other in the Superior Court of New Jersey or any other court of competent jurisdiction to reinstitute the claims, in whole or part, previously at issue in the Consolidated Action, and pursuant to the previous order of dismissal entered in the Consolidated Action, the statute of limitation on all claims and defenses continues to be tolled as to both parties. However, the Company did receive a letter dated November 21, 2003 from Mr. Gallo's attorneys seeking to reach a settlement of the claims asserted against IGI in the Gallo Action without further resort to the courts. The letter provides a general description of Mr. Gallo's claims and a calculation of damages allegedly sustained by Mr. Gallo relative thereto. The letter states that Mr. Gallo's damages are calculated to be in the range of $3,400,000 to $5,100,000. The Company denies liability for the claims and damages alleged in the letter from Mr. Gallo's counsel dated November 21, 2003, and as such, the Company did not make any formal response thereto. Mr. Gallo has contacted the Company's Chief Executive Officer & Chairman, Frank Gerardi, in a continued effort to initiate settlement discussions. As of the present date, the Company continues to deny any merit and/or liability for the claims alleged by Mr. Gallo and has not engaged in any formal settlement discussions with either Mr. Gallo or his attorneys.

On December 8, 2003, Mr. Gallo filed suit against Novavax, Inc. in the Superior Court of New Jersey, Law Division, Atlantic County, docket no. ATL-L-3388-03, asserting claims under seven counts for damages allegedly sustained as a result of the cancellation of certain Novavax stock options held by Mr. Gallo due to his termination from IGI in November 1997 for willful misconduct (referred to as the "Novavax Action").

On March 5, 2004, Novavax filed an Answer denying the allegations asserted by Mr. Gallo in his First Amended Complaint. In addition, while denying any liability under the First Amended Complaint, Novavax also filed a Third Party Complaint in the Novavax Action against the Company for contribution and indemnification, alleging that if liability for Mr. Gallo's claims is found, the Company has primary liability for any and all such damages sustained.

IGI has been notified by its insurance carriers that coverage is not

afforded under their respective policies of insurance for defense and/or indemnification of the claims alleged by the Third Party Complaint. After IGI was notified of the foregoing, but prior to IGI's filing of any responsive pleading, the Third Party Complaint against IGI was voluntarily dismissed without prejudice by Novavax on June 30, 2004. Novavax may at any time pursuant to the rules of court re-file its Third Party Complaint against IGI.

In July 2004, Novavax filed a motion for summary judgment on all claims asserted under Gallo's First Amended Complaint (referred to as the "SJ Motion"). Gallo filed in opposition to the SJ Motion contesting all relief sought thereunder. In August 2004, the Court held a hearing on the SJ Motion and denied without prejudice the relief sought by the motion for dismissal of Gallo's First Amended Complaint. Upon information and belief, the parties are currently proceeding with discovery in the Novavax Action. The Company, as a non-party witness in the Novavax Action, was recently served by counsel for Gallo with a subpoena for the production of documents as responsive thereto.

As of the date hereof, Novavax has not sought to re-file its Third Party Complaint against IGI for which coverage was previously denied by its insurance carriers, but Novavax is not precluded from doing so and may seek to do so in the future.

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Other Matters

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") 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 and has accrued the estimated penalties related to such NOV.

On March 2, 2001, the Company discovered the presence of environmental contamination resulting from an unknown heating oil leak at its Companion Pet Products manufacturing 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 $82,000 remains accrued as of December 31, 2004. The remediation was completed by September 30, 2003. There will be periodic testing and removal performed, which is projected to span over the next four years. The estimated cost of the monitoring is included in the accrual.

This contamination also spread to the property adjacent to the manufacturing facility and the Company is currently involved in a lawsuit with the owner of that property, Ted Borz. Mr. Borz runs a business on that property and he seeking remuneration for loss of income and the reduction in his property value from IGI as a result of the oil spill. IGI believes that it has performed all the necessary tasks required to properly decontaminate Mr. Borz's property. Management does not, however, feel that

it is possible to estimate the outcome of this case at this date.

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

No matters were submitted to a vote of the Company's stockholders during the last quarter of 2004.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

The principal market for the Company's Common Stock ($.01 par value) (the "Common Stock") is the American Stock Exchange ("AMEX") (symbol: "IG"). On March 28, 2002, the Company was notified by AMEX that it was below certain of the Exchange's continuing listing standards. Specifically, the Company was required to reflect income from continuing operations and net income for 2002 and a minimum of $4,000,000 in stockholders' equity by December 31, 2002 in order to remain listed. 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. 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. This determination is subject to the Company's favorable progress in satisfying the AMEX guidelines for continued listing and to AMEX's routine periodic reviews of the Company's SEC filings. Based on the Company's 2004 year-end results, the Company is not in compliance with the AMEX requirement for reporting income from continuing operations and net income for the year ended December 31, 2004. As of the date of the filing of the Form 10-K, the Company has not been contacted by AMEX concerning the Company's non-compliance with the AMEX requirements. While as of this date, the Company has not received any notification of non-compliance from AMEX, the Company has no knowledge of nor can it predict whether AMEX shall at any time hereafter issue formal notification to the Company of its non-compliance with the requirements for continued listing on AMEX, which could result in the Company's delisting from AMEX or otherwise adversely affect the Company.

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

	High	Low
2003		
First quarter	$ .78	$ .54
Second quarter	1.78	.75
Third quarter	2.87	.98
Fourth quarter	2.39	1.25
2004		

First quarter	$2.35	$1.40
Second quarter	2.54	2.05
Third quarter	2.33	1.30
Fourth quarter	1.58	1.16

The approximate number of holders of record of the Company's Common Stock at March 15, 2005 was 667 (not including stockholders for whom shares are held in a "nominee" or "street" name).

PART II

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary of Selected Financial Data (in thousands, except earnings per share information):

	Year ended December 31,			
	2004	2003	2002	2001
Statement of Operating Results				
Revenues	$ 3,558	$ 3,557	$ 4,364	$ 4,294
Operating profit (loss)	(1,220)	(972)	79	(752)
Loss from continuing operations	(892)	(757)	(3,130)	(1,303)
Loss from discontinued operations *	-	-	(523)	(720)
Gain on disposal of discontinued operations	-	435	12,433	283
Cumulative effect of accounting change	-	-	-	-
Net income (loss)	(892)	(322)	8,780	(1,740)
Income (loss) per share-basic and diluted:				
Continuing operations	$ (.08)	$ (.07)	$ (.28)	$ (.11)
Discontinued operations	-	-	(.05)	(.07)
Gain on disposal of discontinued operations	-	.04	1.09	.03
Cumulative effect of accounting change	-	-	-	-
Net income (loss)	$ (.08)	$ (.03)	$ .76	$ (.15)

	As of December 31,			
	2004	2003	2002	2001
Balance Sheet Data				
Working capital	$ 922	$ 1,710	$ 2,064	$(6,733)
Total assets	4,730	5,024	5,929	10,539
Short-term debt and notes payable	-	-	18	9,804
Long-term debt and notes payable (excluding current maturities)**	-	-	164	-
Stockholders' equity (deficit)	4,008	4,166	4,509	(4,185)
Average number of common and				

common equivalent shares:				
Basic and diluted	11,548	11,374	11,430	10,957

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of this Annual Report on Form 10-K contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry and markets in which the Company operates and on management's beliefs and assumptions. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Company. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance, and involve certain risks, uncertainties and assumptions, which are difficult to predict. (See "Factors Which May Affect Future Results" below.) Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

In 2003, the three goals in place for management were a reduction of general and administration expenses, an expansion of research and development expenditures and to lay the foundation for revenue growth. In 2004, with these goals having been achieved, the Company's focus was on growth. Management feels that the decisions that were made during this past year will open up new doors and provide new opportunities for the Company in the very near future. One of the decisions made was to change the way the Company did business with Estee Lauder. Estee Lauder's agreement contained an exclusivity clause that did not allow the Company to sell its technology to any of Estee Lauder's competitors. In July 2004, the Company signed an amendment to the contract with Estee Lauder which (i) removed the exclusivity clause, (ii) moved the production of Estee Lauder's Novasome(R) products to their facility, and (iii) obligates Estee Lauder to pay IGI a royalty of $5.00 per kilogram produced, up to $2 million, and then $2.00 per kilogram thereafter. With the exclusivity removed, IGI may now offer its technology to other cosmetics companies that it once could not.

Realizing that the renegotiation of the Estee Lauder contract would leave a void in revenues, management decided to fill the void with a new technology, unrelated to cosmetics, while we develop our relationships with new cosmetic companies, which can sometimes take several years. The new technology is UltraCem metal finishing. In February 2004, the Company signed a license agreement with Universal Chemical Technologies, Inc. ("UCT") to utilize its patented technology for an electroless nickel boride metal finishing process. This is a new venture for the Company and the Company has had initial capital expenditures of approximately $782,000 in

order to set up the operations. The Company has also hired two new employees to oversee the facility operations and for sales and marketing of the product. The Company has an exclusive license within a 150 mile radius of its facility for commercial and military applications. The Company believes there is the possibility of revenue and profit growth using this application, but there is no guarantee that it will materialize.

As an additional cost saving measure, the Company authorized a reduction in the size of its Board of Directors to four members. In furtherance of this purpose, Dr. Constantine Hampers and Earl Lewis voluntarily tendered their resignations from the Board, effective January 4, 2004. In April of 2004, the Vice President of Business Development left the Company and management decided not to fill the position but rather delegate those responsibilities primarily to outside distributors who work on a contingency basis. In June of 2004, the Company also decided not to renew the employment contract with its Chief Financial Officer, Domenic Golato, which resulted in additional cost savings for the Company.

In 2004, product and developmental expenses increased. Through such product development efforts, the Company gained two new customers for Novasome(R) encapsulated products. Our existing customers are beginning to incorporate Novasomes(R) into additional product lines. Genesis Pharmaceutical, Inc., a division of Pierre-Fabre, has approved a new line of products utilizing the patented Novasome(R) delivery system. Chattem, Inc., makers of Gold Bond and Icy Hot, launched a new Novasome(R) based product with an advertising campaign that will be sold in mass markets and other outlets, and we are currently working on another new product for them.

IGI will continue its efforts to identify new opportunities in dermatologics, cosmetics, pharmaceuticals and nutrients for topical delivery. The Company will also seek to expand the use of its Novasome(R) encapsulation technology for flavors and fragrances, as well as fuel additives. The Company has a Joint Development Agreement with Pure Energy Corporation ("PEC). The goal of the Joint Development Agreement is to develop a new class of cleaner burning alternative fuel formulations based on PEC's proprietary fuel formulations and IGI's microencapsulation technology or a new class of high performance fuel additives based on PEC's proprietary fuel additives and IGI's microencapsulation technology. Stephen J. Morris, a Director and a major stockholder of the Company, is the sole shareholder of PEC and a member of the PEC Board of Directors.

Results of Operations

2004 Compared to 2003

The Company had a net loss of $892,000, or $(.08) per share, in 2004 compared to a net loss of $322,000, or $(.03) per share, in 2003.

Total revenues for 2004 were $3,558,000, which represented an increase of $1,000 from revenues of $3,557,000 in 2003. Licensing and royalty income of $1,007,000 in 2004 increased by $351,000 compared to 2003, primarily as a result of a $300,000 payment from Tarpan Therapeutics and royalties from Estee Lauder. A significant portion of the Company's product sales are attributable to a single customer. In addition, licensing and royalty income is primarily generated from arrangements with three customers.

Product sales of $2,551,000 in 2004 decreased $350,000, or 12%, compared to 2003 due mainly to lower product sales to Estee Lauder, the Company's major customer, but were partially offset by higher sales to Genesis, Vetoquinol USA and new customers. Vetoquinol USA, the company that purchased our Companion Pet Care Division, became a new customer for the Company in 2002 as a result of the sale of the Companion Pet Care Division. The Company continues to manufacture several of the pet care shampoos and lotions for Vetoquinol USA.

Cost of sales decreased by $92,000, or 7%, in 2004 as compared to 2003. As a percentage of product sales, cost of sales increased from 46% in 2003 to 49% in 2004. The decrease in gross profit from 54% in 2003 to 51% in 2004, as a percent of product sales, was the result of the change in mix to lower gross profit products sold.

Selling, general and administrative expenses decreased by $624,000, or 26%, from $2,422,000 in 2003 to $1,798,000 in 2004. These expenses were 68% of revenues for 2003 compared to 51% in 2004. The decrease is primarily due to a reduction of salaries in 2004, which was a goal of management in 2004.

Product development and research expenses increased by $965,000 in 2004, or 127%, compared to 2003. The increase is a result of the Company recording a $545,000 non cash expense related to the SFAS No. 123 value of 300,000 stock options granted to Dr. Holick under his license agreement and 25,000 stock options granted to Dr. Holick for his service on the Scientific Advisory Board, plus a cash payment of $232,000 made to Dr. Holick in accordance with his license agreement. The Company has also made a $50,000 cash payment to the University of Massachusetts in accordance with the license agreement between the Company and the University. There are many new projects being undertaken by the research and development department as a result of new agreements signed in 2004.

Interest income amounted to $25,000 in 2004 compared to interest income (net of expense) of $7,000 in 2003. The Company had no interest expense in 2004 and only recorded income related to marketable securities and overnight investments of our daily cash balance.

The tax benefit of $290,000 in 2004 was a result of the sale of a portion of the Company's state tax operating loss carryforwards in exchange for proceeds of $298,000, offset by the current year's state tax expense of $82,000. The tax benefit increased by $82,000 from 2003 to 2004.

2003 Compared to 2002

The Company had a net loss of $322,000, or $(.03) per share, in 2003 compared to net income attributable to common stockholders of $8,647,000, or $.76 per share, in 2002. The majority of the change from 2002 to 2003 is the result of the gain on the sale of the Companion Pet Products division in 2002.

Total revenues for 2003 were $3,557,000, which represented a decrease of $807,000, or 18%, from revenues of $4,364,000 in 2002. The decreased revenues were due mainly to lower product sales. Licensing and royalty income of $656,000 in 2003 decreased by $195,000 compared to 2002, primarily as a result of decreased licensing revenues from Johnson & Johnson offset by royalty revenue from Estee Lauder. Licensing revenues from Johnson & Johnson are based on its sales. A significant portion of the Company's product sales are attributable to a single customer. In addition, licensing and royalty income is primarily generated from arrangements with two customers.

Product sales of $2,901,000 in 2003 decreased $612,000, or 17%, compared to 2002 due mainly to lower product sales to Estee Lauder, the Company's major customer, but were partially offset by higher sales to Genesis, Vetoquinol USA and new customers.

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Vetoquinol USA, the company that purchased our Companion Pet Care Division, became a new customer for the Company in 2002 as a result of the sale of the Companion Pet Care Division. The Company continues to manufacture several of the pet care shampoos and lotions for Vetoquinol USA.

Cost of sales decreased by $33,000, or 2%, in 2003 as compared to 2002. As a percentage of product sales, cost of sales increased from 39% in 2002 to 46% in 2003. The decrease in gross profit from 61% in 2002 to 54% in 2003, as a percentage of product sales, was the result of the change in mix to lower gross profit products sold and underabsorbed fixed costs.

Selling, general and administrative expenses increased by $64,000, or 3%, from $2,358,000 in 2002 to $2,422,000 in 2003. These expenses were 54% of revenues for 2002 compared to 68% in 2003. The increase is primarily due to a $202,000 charge in the second quarter of 2003 for the cost of benefits provided by the Company under a severance package to one of the Company's executives, 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 by $213,000 in 2003, or 39%, compared to 2002. The increase is a result of additional projects undertaken by the Company for existing and potential new customers and the $50,000 payment made to Dr. Holick related to the licensing of the PTH and Glycoside Technologies.

Interest income (expense) went from a net interest expense of $283,000 in 2002 to a net interest income of $7,000 in 2003. The change is due to lower interest rates and the payment of debt on May 31, 2002 using the proceeds from the sale of the Companion Pet Products division.

The loss on the early extinguishment of debt of $2,654,000 in 2002 related to the write off of the deferred financing costs and the unamortized debt discount in connection with the repayment of the Company's senior debt and the subordinated debt.

The tax benefit of $208,000 in 2003 was a result of the sale of a portion of the Company's state tax operating loss carryforwards in exchange for proceeds of $224,000, offset by the current year's state tax expense of $16,000. Tax expense in 2002 was a result of a New Jersey change in the tax law in July 2002 that was retroactive to January 1, 2002. The change suspended the use of net operating losses for a two year period. Therefore, the gain from the sale of the Companion Pet Products division could not be offset against prior net operating losses, resulting in tax expense for 2002. The effect of this change was required to be reflected as a component of continuing operations. The Company sold some of its state tax operating loss carryforwards in exchange for proceeds of $249,000 in 2002. The 2002 proceeds partially offset the effect of the tax law change.

The $435,000 of income from discontinued operations in 2003 consisted of a $169,000 insurance settlement, net of legal costs, received for damages incurred by the Company as a result of a heating oil leak at the Company's Companion Pet Products site and a $288,000 gain on the sale of

the Company's Companion Pet Products facility offset by $15,000 of regulatory expenses and $7,000 of other expenses. In 2002, discontinued operations consisted of the gain on the sale of the Companion Pet Products division and the loss from operations of that division.

Liquidity and Capital Resources

The Company's operating activities used $235,000 of cash during 2004, compared to $468,000 used in 2003.

The Company used $427,000 of cash in 2004 for investing activities compared to $452,000 used 2003. The majority of the 2004 investing activities were for the machinery and equipment purchases to set up the metal plating line, which was offset by proceeds from the sale of marketable securities. In 2003, the cash was primarily used to purchase marketable securities offset by proceeds from the sale of property.

The Company's financing activities provided $221,000 of cash in 2004 compared to $258,000 used in 2003. The cash provided in 2004 was from the exercise of stock options by a former director of the Company and in 2003 cash was used primarily to pay off the loan from the New Jersey Economic Development Authority.

The Company's principal sources of liquidity are cash from operations, cash and cash equivalents and marketable securities. The Company has undergone many changes within the past year, including the release of the exclusivity on the Estee Lauder contract and the expansion of the facility to house the metal plating line. These changes have made it necessary for the Company to utilize its cash. However, these changes were made in an effort to position the Company for future growth and expansion. Management was aware of the impact these changes would have on the cash balance and 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. If these funds are not sufficient to meet the Company's needs, two stockholders of the Company have agreed to loan the Company up to $500,000 each, if necessary, to fund the Company's commitment to Novavax due December 13, 2005 or to fund the deficit through December 31, 2005. There may be acquisition and other growth opportunities that may require additional external financing.

Management may, from time to time, seek additional funds from the public or private issuances of equity or debt securities. There can be no assurance that such financing will be available or available on terms acceptable to the Company.

The total contractual obligations over the next five years and beyond are as follows:

Expected Cash Payments By Year
(in thousands)

Contractual Commitments	2005	2006	2007	2008	2009 and beyond	Total

Operating lease obligations	$34	$25	$22	$22	$22	$125

In February 2004, the Company signed a license agreement with UCT to utilize their patented technology for an electroless nickel boride metal finishing process. The Company spent $782,000 in capital expenditures on this new venture in order to set up the operations.

The Company has an option, which is exercisable on December 13, 2005, to extend its exclusive license for the use of the Technologies in the IGI Field for an additional ten-year term in exchange for a $1,000,000 cash payment.

Factors Which May Affect Future Results

The industry segments in which the Company competes are 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 experienced in the industry and possess far greater 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

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

Revision of Current Contract with Estee Lauder

As noted above, in 2004, the Company renegotiated its agreement with Estee Lauder. The Company will no longer manufacture products for Estee Lauder. Estee Lauder now manufactures all products in house and pays the Company $5.00 per kilogram produced, up to $2 million, and then $2.00 per kilogram thereafter. In addition, the exclusivity clause was removed from the Estee Lauder agreement and, consequently, the Company may now sell its products in department and specialty stores. Although it is the Company's belief that this will increase business and revenue in the future, there is no guarantee that it will occur.

Licensing Agreement with Universal Chemical Technologies, Inc.

In February 2004, the Company signed a license agreement with UCT to utilize their patented technology for an electroless nickel boride metal

finishing process. This is a new venture for the Company that required $782,000 to be spent to date to set up the operations at our facility. The Company has an exclusive license within a 150 mile radius of its facility for commercial and military applications. The Company believes there is the possibility of major revenue and profit growth using this application, but there is no guarantee that it will materialize.

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 continuing listing standards. Specifically, 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 in order to remain listed.

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 Company was subject to periodic review by the AMEX staff during the extension period. Based on the Company's reported results for 2002, the Company was not in compliance with the AMEX listing standards for income from continuing operations. 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. This determination is subject to the Company's favorable progress in satisfying the AMEX guidelines for continued listing and to AMEX's routine periodic reviews of the Company's SEC filings. Based on the Company's 2004 year-end results, the Company is not in compliance with the AMEX requirement for reporting income from continuing operations and net income for the year ended December 31, 2004. As of the date of the filing of the Form 10-K, the Company has not been contacted by AMEX concerning the Company's non-compliance with the AMEX requirements. While as of this date, the Company has not received any notification of non-compliance from AMEX, the Company has no knowledge of nor can it predict whether AMEX shall at any time hereafter issue formal notification to the Company of its non-compliance with the requirements for continued listing on AMEX, which could result in the Company's delisting from AMEX or otherwise adversely affect the Company.

Recent Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which addresses consolidation by business enterprises of variable interest entities ("VIEs"). FIN 46 is applicable immediately for VIEs created after January 31, 2003 and is effective for reporting periods ending after December 15, 2003, for VIEs created prior to February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, public companies that have interests in VIE's that are commonly referred to as special purpose entities are required to apply the provisions of FIN 46R for periods ending after December 15, 2003. A public company that does not have any interests in special purpose entities but does have a variable interest in a VIE created before February 1, 2003, must apply the provisions of FIN 46R by the end of the first interim or annual reporting period ending after

March 14, 2004. The adoption of FIN 46 had no impact on the financial condition or results of operations since the Company does not have investments in VIEs.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The provisions of this Statement shall be effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. The Company is currently evaluating the effects the adoption of this statement will have on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees", and allowed under the original provisions of SFAS No. 123. SFAS No. 123R requires the use of an option-pricing model for estimating fair value, which is amortized to expense over the service periods. The requirements of SFAS No. 123R are effective for fiscal periods beginning after June 15, 2005. The Company is currently evaluating the transition methods.

Critical Accounting Policies and Estimates

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

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

Environmental Remediation Liability

On March 2, 2001, the Company became aware of environmental contamination resulting from an unknown heating oil leak at its Companion Pet Products manufacturing facility. The Company immediately notified the New Jersey Department of Environmental Protection and the local authorities, and hired a contractor to assess the exposure and required clean up. Based on the initial information from the contractor, the Company originally estimated the cost for the cleanup and remediation to be $310,000. In September 2001, the contractor updated the estimated total cost for the cleanup and remediation to be $550,000. In December 2002, a further update was performed and the final estimated costs were increased to $620,000, of which $82,000 remains accrued as of December 31, 2004. Based on information provided to the Company from its environmental consultant and what is known to date, the Company believes the reserve is sufficient for the remediation of the environmental contamination. There is a possibility, however, that the remediation costs may exceed the Company's estimates.

Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset. Based on available information, management believes that the carrying value of its long-lived assets are currently recoverable from future net undiscounted cash flows expected to be generated from such assets. There is a possibility, however, that changes could occur in the future (e.g., the loss of a significant customer) which would negatively impact the Company's ability to recover the carrying amount of its long-lived assets. The occurrence of such an event might result in the Company having to record an impairment charge.

Deferred Tax Valuation Allowance

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company does not use derivative instruments in its marketable securities portfolio. The Company classifies its investments in its marketable securities portfolio as available-for-sale and records them at fair value. The securities unrealized holding gains and losses are excluded from income (loss) and are recorded directly to stockholders' equity in accumulated other comprehensive income (loss). Changes in interest rates are not expected to have an adverse effect on the Company's financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes thereto listed in the accompanying index to financial statements (Item 15) are filed as part of this Annual Report and incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of certain members of the Company's management, including the Chief Executive Officer and Vice President of Finance, the Company completed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, the Company's Chief Executive Officer and Vice President of Finance believe that the disclosure controls and procedures were generally effective as of the end of the period covered by this report with respect to timely communicating to them and other members of management responsible for preparing periodic reports all material information required to be disclosed in this report as it relates to the Company and its consolidated subsidiaries. Such evaluation did not identify any change in the Company's internal control over financial reporting during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In a report to the Audit Committee of our Board of Directors and management of the Company, delivered by our independent audit firm, Amper, Politziner, & Mattia P.C., on March 24,2005 in connection with their review of our financial results for the year ended December 31, 2004, two items were identified to be material weaknesses in our internal controls. A "material weakness" is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our material weaknesses are insufficient resources and administrative support in the accounting department and an unreliable accounting software package. As a result of these material weaknesses, our internal controls over financial reporting are ineffective. We agree with our independent auditors and we have begun taking steps to alleviate these material weaknesses. We will be hiring an additional support person in the accounting department and a new accounting/manufacturing software package is currently being installed throughout the Company. The impact of the above conditions did not affect the results of this period or any prior period.

The Company's management cannot assure that its disclosure controls and procedures or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of

simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some person or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, the Company's disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of its disclosure control system are met and, as set forth above.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

A portion of the information required by this item is contained in part under the caption "Executive Officers of the Registrant" in Part I hereof, and the remainder is contained in the Company's Proxy Statement for the Company's 2005 Annual Meeting of Stockholders (the "2005 Proxy Statement") under the captions "PROPOSAL 1 - Election of Directors - Nominees for Election as Directors," "Committees of the Board - Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" which are incorporated herein by this reference. Officers are elected on an annual basis and serve at the discretion of the Board of Directors. The Company expects to file the 2005 Proxy Statement no later than April 29, 2005.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is contained in the Company's 2005 Proxy Statement under the captions "EXECUTIVE COMPENSATION," "OPTION GRANTS IN LAST FISCAL YEAR", "AGGREGATED OPTION EXERCISES IN FISCAL YEAR 2004 AND YEAR END 2004 OPTION VALUES," "Compensation Committee Interlocks and Insider Participation," and "Director Compensation and Stock Options" and is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

A portion of the information required by this item is contained in the Company's 2005 Proxy Statement under the caption "Beneficial Ownership of Common Stock" and is incorporated herein by this reference.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table includes information as of December 31, 2004 relating to the Company's 1989 Stock Incentive Plan, 1991 Stock Incentive,

1999 Stock Incentive Plan and 1999 Director Stock Option Plan, which comprise all of the equity compensation plans of the Company. The table provides the number of securities to be issued upon the exercise of outstanding options under such plans, the weighted-average exercise price of such outstanding options and the number of securities remaining available for future issuance under such equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of se remaining ava future issua equity compe plans (exc securities r in colum
	(a)	(b)	(c
Equity compensation plans approved by security holders	2,588,048	$1.85	940,9
Equity compensation plans not approved by security holders	-	-	
Total	2,588,048	$1.85	940,9

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained in the Company's 2005 Proxy Statement under the caption "Certain Relationships and Related Transactions" and is incorporated herein by this reference.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is contained in the Company's 2005 Proxy Statement under the caption "Relationship with Independent Public Accountants" and is incorporated herein by this reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements:

Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets, December 31, 2004 and 2003

Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss) for the years ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

Schedule II. Valuation and Qualifying Accounts and Reserves

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

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

(3) Exhibits Required to be Filed by Item 601 of Regulation S-K:

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

SIGNATURES

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

Date: April 12, 2005 IGI, Inc.

By: /s/Frank Gerardi

Frank Gerardi
Chairman and Chief Executive Officer

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

Signatures	Title	Date
/s/Frank Gerardi Frank Gerardi	Chairman and Chief Executive Officer	April 12, 2005

/s/Carlene A. Lloyd Carlene A.Lloyd	Vice President of Finance	April 12, 2005
/s/Stephen J. Morris Stephen J. Morris	Director	April 12, 2005
/s/Terrence O'Donnell Terrence O'Donnell	Director	April 12, 2005
/s/Donald W. Joseph Donald W. Joseph	Director	April 12, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
IGI, Inc.:

We have audited the accompanying consolidated balance sheet of IGI, Inc. and subsidiaries as of December 31, 2003 and the related consolidated statements of operations, cash flows and stockholders' equity (deficit) and comprehensive income (loss) for each of the years in the two year period ended December 31, 2003. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule for the years ended December 31, 2003 and 2002. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IGI, Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections, relating to the classification of losses from the extinguishment of debt in 2003.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 7, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
IGI, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of IGI, Inc. and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, cash flows, and stockholders' equity (deficit) and comprehensive income (loss) for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 consolidated financial statements referred to above present fairly, in all material respects, the financial position of IGI, Inc. and Subsidiaries as of December 31, 2004, and the results of its operations and its cash flows for the year ended December 31, 2004, in conformity with U.S generally accepted accounting principles.

In connection with our audit of the consolidated financial statements referred to above, we audited Schedule II - Valuation and Qualifying Accounts. In our opinion, this financial schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

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

March 30, 2005
Edison, New Jersey

IGI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003
(in thousands, except share and per share information)

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 380	$ 821
Restricted cash	50	50
Marketable securities	377	800
Accounts receivable, less allowance for doubtful accounts of $10 and $16 in 2004 and 2003, respectively	306	350
Licensing and royalty income receivable	155	17
Inventories	247	192
Prepaid expenses and other current assets	8	133
Total current assets	1,523	2,363
Property, plant and equipment, net	3,168	2,607
Other assets	39	54
Total assets	$ 4,730	$ 5,024
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	157	105
Accrued payroll	16	75
Other accrued expenses	243	301
Income taxes payable	5	7
Deferred income	180	165
Total current liabilities	601	653
Deferred income	121	205
Total liabilities	722	858
Commitments and contingencies (Notes 13 and 14)		
Stockholders' equity:		
Common stock, $.01 par value, 50,000,000 shares authorized; 13,547,520 and 13,351,237 shares issued in 2004 and 2003, respectively	135	134
Additional paid-in capital	24,467	23,702
Accumulated other comprehensive loss	(32)	-
Accumulated deficit	(19,167)	(18,275)
Less treasury stock, 1,965,740 shares at cost in 2004 and 2003	(1,395)	(1,395)
Total stockholders' equity	4,008	4,166
Total liabilities and stockholders' equity	$ 4,730	$ 5,024

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

IGI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended December 31, 2004, 2003 and 2002
(in thousands, except share and per share information)

	2004	2003	2002
Revenues:			
Sales, net	$ 2,551	$ 2,901	$ 3,513
Licensing and royalty income	1,007	656	851
Total revenues	3,558	3,557	4,364
Costs and Expenses:			
Cost of sales	1,253	1,345	1,378
Selling, general and administrative expenses	1,798	2,422	2,358
Product development and research expenses	1,727	762	549
Operating profit (loss)	(1,220)	(972)	79
Interest income (expense), net	25	7	(283)
Other income, net	13	-	58
Loss on early extinguishment of debt	-	-	(2,654)
Loss from continuing operations before provision (benefit) for income taxes	(1,182)	(965)	(2,800)
Provision (benefit) for income taxes	(290)	(208)	330
Loss from continuing operations	(892)	(757)	(3,130)
Discontinued operations:			
Loss from operations of discontinued businesses	-	-	(523)
Gain on disposal of discontinued businesses	-	435	12,433
Net income (loss)	(892)	(322)	8,780
Mark to market for detachable stock warrants	-	-	(133)
Net income (loss) attributable to common stockholders	$ (892)	$ (322)	$ 8,647
Basic and Diluted Earnings (Loss) Per Common Share			
Continued operations	$ (.08)	$ (.07)	$ (.28)
Discontinued operations	-	.04	1.04
Net income (loss) per share	$ (.08)	$ (.03)	$ .76
Weighted average of common stock outstanding			
Basic and diluted	11,547,791	11,373,952	11,429,978

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

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IGI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2004, 2003 and 2002
(in thousands)

	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	$ (892)	$ (322)	$ 8,7
Reconciliation of net income (loss) to net cash used in operating activities:			
Gain on disposal of discontinued operations	-	(435)	(12,4
Proceeds from insurance settlement, net of expenses related to discontinued operations	-	147	
Depreciation and amortization	271	269	3
Amortization of deferred financing costs and debt discount	-	-	2
Loss on early extinguishment of debt	-	-	2,6
Impairment of property, plant and equipment	-	-	6
Loss (gain) on sale of marketable securities	1	-	(
Provision for accounts and notes receivable and inventories	7	11	
Recognition of deferred income	(169)	(135)	(1
Interest expense related to subordinated note agreement	-	-	
Stock-based compensation expense	545	55	
Changes in operating assets and liabilities:			
Restricted cash	-	(50)	
Accounts receivable	43	128	(1
Inventories	(61)	8	(1
Licensing and royalty income receivable	(138)	149	
Prepaid expenses and other assets	125	6	
Accounts payable and accrued expenses	(65)	(290)	(9
Deferred income	100	-	
Income taxes payable	(2)	(9)	
Discontinued operations - working capital changes and non-cash charges	-	-	3
Net cash used in operating activities	(235)	(468)	(7
Cash flows from investing activities:			
Capital expenditures	(817)	(99)	(1
Proceeds from sale of property, plant and equipment	-	450	5
Increase in other assets	-	(3)	(
Proceeds from sale of marketable securities	500	-	
Purchase of marketable securities	(110)	(800)	
Discontinued operations - other investing activities	-	-	
Proceeds from sale of discontinued operations, net of direct costs	-	-	15,4
Net cash provided by (used in) investing activities	(427)	(452)	15,9

Cash flows from financing activities:			
Borrowings under revolving credit agreement	-	-	5,9
Repayment of revolving credit agreement	-	-	(8,2
Repayment of debt	-	-	(9,5
Payment of deferred financing costs	-	-	(2
Repayment of EDA loan	-	(227)	(
Borrowings under EDA loan	-	45	1
Proceeds from exercise of common stock options and purchase of common stock	221	4	
Purchase of treasury shares	-	(80)	(1,3
Net cash provided by (used in) financing activities	221	(258)	(13,2
Net increase (decrease) in cash and cash equivalents	(441)	(1,178)	1,9
Cash and cash equivalents at beginning of year	821	1,999	
Cash and cash equivalents at end of year	$ 380	$ 821	$ 1,9
Supplemental cash flow information:			
Cash payments for interest	$ -	$ 10	$ 5
Cash payment (receipt) for taxes	(288)	(199)	3

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

IGI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
AND COMPREHENSIVE INCOME (LOSS)
for the years ended December 31, 2004, 2003 and 2002
(in thousands, except share information)

	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)	Accumu Defi
Balance, January 1, 2002	11,243,720	$112	$22,436	$ -		$(26,
Issuance of stock pursuant to Directors' Stock Plan	70,322	1	47			
Stock options exercised	39,000	1	20			
Employee stock purchase plan	30,975		15			
Adjustment of detachable stock warrants			(133)			
Detachable stock warrant exercised	1,878,640	19	1,259			
Buyback of stock						
Net income					$8,780	8,

Balance, December 31, 2002	13,262,657	133	23,644			(17,
Issuance of stock pursuant to Directors' Stock Plan	79,327	1	54			
Employee stock purchase plan	9,253		4			
Buyback of stock						
Net loss					$ (322)	(
Balance, December 31, 2003	13,351,237	134	23,702			(18,
Stock options exercised	176,666	1	212			
Employee stock purchase plan	19,617		8			
Issuance of stock option to non-employee			545			
Comprehensive Income						
Net loss					$(892)	(
Unrealized loss on marketable securities				(32)	(32)	
Comprehensive loss					$(924)	
Balance, December 31, 2004	13,547,520	$135	$24,467	$(32)		$(19,

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

IGI, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of the Business

IGI, Inc. ("IGI" or the "Company"), a Delaware corporation, operating in the State of New Jersey, is primarily engaged in the production and marketing of cosmetics and skin care products. During 2002, the Company sold its Companion Pet Products division, which manufactured and sold companion pet care products. Beginning in the first quarter of 2005, the Company will also be engaged in the metal finishing business, specifically nickel boride, using the UltraCem technology.

IGI's Consumer Products business is primarily focused on the continued commercial use of the Novasome(R) microencapsulation technologies for skin care applications. These efforts have been directed toward the development of high quality skin care products marketed by the Company or through collaborative arrangements with cosmetic and consumer products companies.

Estee Lauder, a significant customer, accounted for $1,248,000, or 35%, of 2004 revenues, $1,812,000, or 51%, of 2003 revenues, and $2,629,000, or 60%, of 2002 revenues. In July 2004, the Company amended its agreement with Estee Lauder. Estee Lauder is now manufacturing all Novasome(R) and non Novasome(R) products in house and must pay the Company

a royalty per kilogram on all Novasome(R) products they manufacture, including all new products developed. In addition, Estee Lauder paid to the Company a one time payment of $100,000 in connection with the amendment of the agreement. The Company's contract manufacturing of Estee Lauder non-Novasome(R) products, which accounted for $559,000 of the $1,248,000 in revenues in 2004, terminated contractually on June 30, 2004, without any required future royalties or other payments to be received by the Company on any non-Novasome(R) products manufactured by Estee Lauder.

Vetoquinol USA, a significant customer, accounted for $442,000 or 12% of 2004 revenues, $523,000, or 15%, of 2003 revenues, and $361,000, or 7%, of 2002 revenues.

Johnson & Johnson, a significant customer, accounted for $385,000 or 11% of 2004 revenues, $488,000, or 14%, of 2003 revenues, and $714,000, or 16%, of 2002 revenues.

Principles of Consolidation

The consolidated financial statements include the accounts of IGI, Inc. and its wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Cash Equivalents

Cash equivalents consist of short-term investments which have original maturities of 90 days or less.

Accounts Receivable and Allowance for Doubtful Accounts

The Company extends credit to its customers, based upon credit evaluations, in the normal course of business, primarily with 30- day terms. The Company does not require collateral from its customers. Bad debts are provided for on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The Company charges off uncollectible receivables when the likelihood of collection is remote.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are cash, cash equivalents and accounts receivable. The Company limits credit risk associated with cash and cash equivalents by placing its cash and cash equivalents with one high credit quality financial institution. The Company's cash and cash equivalents, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any credit risk on cash and cash equivalents.

Marketable Securities

Realized gains and losses are determined using the specific-identification method.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out ("FIFO") method, or market.

Property, Plant and Equipment

Depreciation of property, plant and equipment is provided for under the straight-line method over the assets' estimated useful lives as follows:

	Useful Lives
Buildings and improvements	10 - 30 years
Machinery and equipment	3 - 10 years

Repair and maintenance costs are charged to operations as incurred while major improvements are capitalized. When assets are retired or disposed, the cost and accumulated depreciation thereon are removed from the accounts and any gains or losses are included in operating results.

Long-Lived Assets

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In performing such review for recoverability, the Company compares expected future cash flows of assets to the carrying value of the long-lived assets and related identifiable intangibles. If the expected future cash flows (undiscounted) are less than the carrying amount of such assets, the Company recognizes an impairment loss for the difference between the carrying value of the assets and their estimated fair value, with fair values being determined using projected discounted cash flows at the lowest level of cash flows identifiable in relation to the assets being reviewed.

Accounting for Environmental Costs

Accruals for environmental remediation are recorded when it is probable a liability has been incurred and costs are reasonably estimable. The estimated liabilities are recorded at undiscounted amounts. Environmental insurance recoveries are included in the statement of operations in the year in which the issue is resolved through settlement or other appropriate legal process.

Income Taxes

The Company records income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," under the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to operating loss and tax credit carryforwards and differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded based on a determination of the ultimate realizability of future deferred tax assets.

Revenue Recognition

Sales, net of appropriate cash discounts, product returns and sales reserves, are recorded upon shipment of products. Revenues earned under research contracts or sublicensing and supply agreements are either

recognized when the related contract provisions are met, or, if under such contracts or agreements the Company has continuing obligations, the revenue is initially deferred and then recognized over the life of the agreement.

Stock-Based Compensation

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation", which establishes a fair value based method of accounting for stock-based compensation plans, the Company had elected to follow Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees" for recognizing stock-based compensation expense for financial statement purposes. For companies that choose to continue applying the intrinsic value method, SFAS No. 123 mandates certain pro forma disclosures as if the fair value method had been utilized. The Company accounts for stock based compensation to consultants in accordance with EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and SFAS No. 123.

The following table illustrates the effect on income (loss) attributable to common stockholders and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	2004	2003	2002
	(in thousands, except per share information)		
Net income (loss) attributable to common stockholders - as reported	$ (892)	$(322)	$8,647
Deduct: Total stock-based employee compensation expense determined under the fair value based method	(193)	(129)	(496)
Net income (loss) attributable to common stockholders - pro forma	$(1,085)	$(451)	$8,151
Income (loss) per share - as reported Basic and diluted	$ (.08)	$(.03)	$ .76
Income (loss) per share - pro forma Basic and diluted	$ (.09)	$(.04)	$ .71

The pro forma information has been determined as if the Company had accounted for its employee and director stock options under the fair value method. The fair value for these options was estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions for 2004, 2003 and 2002:

Assumptions	2004	2003	2002

Dividend yield	0%	0%	0%
Risk free interest rate	3.59%-4.27%	2.89%-3.62%	3.53%-4.97%
Estimated volatility factor	88%	176%	176%
Expected life	7 years	7 years	7 years

Product Development and Research

The Company's research and development costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred. Such expenses for the years ended December 31, 2004, 2003, and 2002 were $39,000, $60,000 and $17,000, respectively.

Shipping and Handling Costs

Costs related to shipping and handling are comprised of outbound and inbound freight and the associated labor. These costs are recorded in costs of sales.

Net Income (Loss) per Common Share

Basic net income (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 income (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. Potential dilutive common stock equivalents include shares issuable upon the exercise of options and warrants. Due to the Company's net loss from continuing operations for the years ended December 31, 2004, 2003 and 2002, the effect of the Company's potential dilutive common stock equivalents was anti-dilutive for each year; as a result, the basic and diluted weighted average number of common shares outstanding and net income (loss) per common share are the same. Potentially dilutive common stock equivalents which were excluded from the net income (loss) per share calculations due to their anti-dilutive effect amounted to 1,140,379 for 2004, 2,550,000 for 2003, and 2,852,000 for 2002.

Comprehensive Income (Loss)

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of comprehensive income (loss) and its components. Comprehensive income (loss) is defined to include all changes in stockholders' equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) is the sum of net income (loss) and unrealized gains (losses) on marketable securities. Unrealized gains (losses) on investments are excluded from net income (loss) and are reported in accumulated other comprehensive loss in the accompanying consolidated financial statements.

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 allowances, and accruals for environmental cleanup and remediation costs. Actual results could differ from those estimates.

Effect of Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which is effective for fiscal years beginning after May 15, 2002 for provisions related to SFAS No. 4, effective for all transactions occurring after May 15, 2002 for provisions related to SFAS No. 13 and effective for all financial statements issued on or after May 15, 2002 for all other provisions of SFAS No. 145. 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, in accordance with SFAS No. 145.

In January 2003, FASB issued Interpretation 46, "Consolidation of Variable Interest Entities" (FIN 46), which addresses consolidation by business enterprises of variable interest entities ("VIEs"). FIN No.46 is applicable immediately for VIEs created after January 31, 2003 and are effective for reporting periods ending after December 15, 2003, for VIEs created prior to February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, public companies that have interests in VIE's that are commonly referred to as special purpose entities are required to apply the provisions of FIN 46R for periods ending after December 15, 2003. A public company that does not have any interests in special purpose entities but does have a variable interest in a VIE created before February 1, 2003, must apply the provisions of FIN 46R by the end of the first interim or annual reporting period ending after March 14, 2004. The adoption of FIN 46 has no impact on the financial condition or results of operations since the Company does not have investments in VIE's.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The provisions of this statement shall be effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. The Company is currently evaluating the effects that adoption of this statement will have on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25 "Accounting for Stock Issued to Employees," and allowed under the original provisions of SFAS No. 123. SFAS No. 123R requires the use of an option-pricing model for estimating fair value, which is amortized to expense over the service periods. The requirements of SFAS No. 123R are effective for fiscal periods beginning after June 15, 2005. The Company is currently

evaluating the transition methods.

2. Liquidity

The Company's principal sources of liquidity are cash, cash equivalents and marketable securities of approximately $757,000 and cash from operations. Management believes that existing cash, cash equivalents, marketable securities and cash flows from operations will be sufficient to meet the Company's foreseeable operating cash needs for at least the next year. In addition, two stockholders of the Company have agreed to loan the Company up to $500,000 each, if necessary, to help fund the Company's commitment to Novavax due on December 13, 2005 or to fund the Company's deficit through December 31, 2005. There may be acquisition and other growth opportunities, however, that require additional external financing. Several of the board members have voiced their willingness to exercise stock options should the need for additional cash arise. Management may, from time to time, seek to obtain additional funds from public or private issuances of equity or debt securities. There can be no assurance that such additional financings will be available or available on terms acceptable to the Company.

3. Marketable Securities

Marketable securities at December 31, 2004 and 2003 consist of an investment in a short-term bond mutual fund and an investment in stock. The Company currently classifies all marketable securities as available-for-sale in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Securities classified as available-for-sale are required to be reported at fair value with unrealized gains and losses, net of taxes, excluded from operations and shown separately as a component of accumulated other comprehensive loss within stockholders' equity. Realized gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

The amortized cost, gross unrealized gains and losses and fair value of the available-for-sale marketable securities as of December 31, 2004 and 2003 are as follows (amounts in thousands):

2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Amount
Mutual funds	$ 299	$ -	$ (4)	$ 295	$ 295
Securities	110	-	(28)	82	82
	$ 409	$ -	$(32)	$ 377	$ 377

2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Amount

Mutual funds	$ 800	$ -	$ -	$ 800	$ 800

Sales of available-for-sale securities for the year ended December 31, 2004, 2003, and 2002 were as follows (amounts in thousands):

	2004	2003	2002
Proceeds from sales	$500	-	$58
Gross realized gains	-	-	58
Gross realized losses	(1)	-	-

The increase in net unrealized holding losses on available-for-sale securities in the amount of $32,000 was recorded directly to stockholders' equity as of December 31, 2004.

4. Discontinued Operations

On May 31, 2002, the stockholders 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 buyer assumed liabilities of approximately $986,000, and paid the Company cash in the amount of $16,254,000. The Company's results reflect a $12,433,000 gain on the sale of the Companion Pet Products division for the year ended December 31, 2002. The gain is net of direct costs incurred by the Company in connection with the sale and the reduction in the purchase price resulting from post-closing adjustments. For the year ended December 31, 2003, the Company had a gain on the disposal of discontinued operations of $435,000 which primarily consisted of a net gain of $169,000 for an insurance settlement, net of legal costs, for damages incurred by the Company as a result of a heating oil leak at the Companion Pet Products manufacturing site and a net gain of $288,000 on the sale of the former Companion Pet Products manufacturing site land and building on December 18, 2003. The Companion Pet Products division incurred losses of $523,000 in the year ended December 31, 2002. The results for the year ended December 31, 2002 included an impairment charge of $630,000 related to the Companion Pet Products warehouse. Upon the sale of the Companion Pet Products division, the Company paid all of its debt and interest owed to Fleet Capital Corporation ("Fleet") and American Capital Strategies, Ltd. ("ACS"). As a result, the Company incurred a $2,654,000 loss from early extinguishment of debt in connection with the prepayment fees paid to Fleet and ACS and the write-off of the ACS debt discount.

During 2001, the Company recorded non-recurring charges related to the cessation and shutdown of the manufacturing operations at the Companion Pet Products facility. The Company applied to the New Jersey Economic Development Authority (NJEDA) and the New Jersey Department of Environmental Protection for a grant and loan to provide partial funding for the costs of investigation and remediation of the environmental contamination discovered at the Companion Pet Products facility. On June 26, 2001, the Company was awarded an $81,000 grant and a $246,000 loan. The $81,000 grant was received in the third quarter of 2001. The loan, which required monthly principal payments, had a term of ten years at a

rate of interest of 5%. The Company received funding of $45,000 and $182,000 from the loan during 2003 and 2002, respectively. On December 18, 2003, the loan was paid in full upon the sale of the Companion Pet Products facility, which had served as the collateral for the loan.

The activity in 2004 related to the environmental clean up costs is as follows (amounts in thousands):

Description	Net accrual at December 31, 2003	Cash expenditures	Net accrual at December 31, 2004
Environmental cleanup costs	$102	$(20)	$82

5. Supply and Sublicensing Agreements

In February 2001, the Company signed a new manufacturing and supply agreement and an assignment of trademark agreement for the WellSkin(tm) line of skin care products with Genesis Pharmaceutical, Inc. The manufacturing and supply agreement expires on December 13, 2005 and contains two ten-year renewal options. The Company received a lump sum payment of $525,000 for the assignment of the trademark, which is being recognized ratably over the term of the arrangement. The Company recognized $105,000 of income related to this agreement in each of the years ended December 31, 2004, 2003 and 2002.

The Company entered into a sublicense agreement with Johnson & Johnson Consumer Products, Inc. ("J&J") in 1995. The agreement provided J&J with a sublicense to produce and sell Novasome(R) microencapsulated retinoid products and provides for the payment of royalties on net sales of such products. J&J began selling such products and making royalty payments in the first quarter of 1998. The Company recognized $385,000, $488,000 and $714,000 of royalty income related to this agreement for the years ended December 31, 2004, 2003 and 2002, respectively.

In August 1998, the Company granted Johnson & Johnson Medical ("JJM"), a division of Ethicon, Inc., worldwide rights for the use of the Novasome(R) technology for certain products and distribution channels. The agreement provided for JJM to pay the Company $300,000 as well as future royalty payments based on JJM's sales of sublicensed products. The Company recognized $30,000, $35,000 and $32,000 of royalty income in 2004, 2003 and 2002, respectively, related to the agreement. In March of 2002, the agreement between the Company and JJM was amended stating that JJM is no longer required to make minimum payments and the license has been converted to a non-exclusive worldwide license with the exception of Japan, which will remain exclusive. If the amount of royalties paid by JJM equals or exceeds $200,000 in any year, the following calendar year will become an exclusive worldwide agreement and will remain so until royalties fall below that amount.

In July 2001, the Company entered into a Research, Development and Manufacturing Agreement with Apollo Pharmaceutical (Canada), Inc. ("Apollo"), previously known as Prime Pharmaceutical Corporation. The

purpose of the agreement was to develop a facial lotion, a facial creme and scalp application for the treatment of psoriasis. The project has been completed in stages with amounts being paid to the Company with the successful completion of each stage. In addition, the Company has agreed to rebate $3.60 per kilogram for the first 12,500 kilograms of product manufactured for and sold to Apollo. During 2002 and 2003, there was no activity between the Company and Apollo due to a change in management at Apollo. In 2004, the Company recognized $137,000 of product sales from Apollo.

In November 2002, the Company entered into a Manufacturing Service Agreement with Desert Whale Jojoba Company, Inc. The purpose of this agreement is to develop and manufacture jojobasomes to be used as a personal care product. This project was in a developmental stage through 2002. The Company recognized $7,000 of product sales related to this project in 2003. The Company is no longer doing business with Desert Whale Jojoba Company, Inc.

In July 2004, the Company, in order to allow growth and new business opportunities, renegotiated its contract with Estee Lauder, a significant customer. Estee Lauder is manufacturing all Novasome(R) and non-Novasome(R) products in house and is paying the Company a royalty per kilo on all Novasome(R) products manufactured by Estee Lauder, including all new products developed plus a one time payment of $100,000 per the contract. The Company's contract manufacturing of Estee Lauder non-Novasome(R) products, which accounted for $559,000 of the $1,248,000 in revenues in 2004, terminated contractually on June 30, 2004, without any required future royalties or other payments to be received by the Company on any non-Novasome(R) products manufactured by Estee Lauder. However, Estee Lauder may from time to time require the assistance of IGI to manufacture Novasome(R) and non Novasome(R) products at Estee Lauder's request. In addition, during the six month period from January through June 2004, the Company agreed to provide Estee Lauder's contract manufacturing services at a reduced price of $2.00 per kilo, as compared to the prior rate of $3.03 per kilo. The Company received $184,000 in 2004 and $28,000 in 2003 of royalty income from Estee Lauder pursuant to the Company's agreement with Estee Lauder for various Novasome(R) vesicles skin care products produced by Estee Lauder.

On July 27, 2004, the Company signed an exclusive license agreement with the University of Massachusetts Medical School (University) for the patented invention entitled "The Treatment of Skin with Adenosine or Adenosine Analogs." The Company intends to encapsulate adenosine or adenosine analogs in Novasome(R) for use in the skin care field. As consideration of the rights granted in this agreement, the Company made nonrefundable payments of $25,000 upon the execution of this agreement and $25,000 in September 2004. Both of these payments were expensed during the third quarter of 2004 and are included in the product development and research expenses. The agreement also calls for minimum royalty payments of $25,000 per year commencing on July 27, 2007. If the Company enters into a sublicense agreement with a third-party entity, which it will attempt to do, the Company must pay the University 50% of all sublicense income.

6. Supplemental Cash Flow Information

During the years ended December 31, 2004, 2003 and 2002, the Company had the following non-cash financing and investing activities:

	2004	2003	2002
	(in thousands)		
Mark to market adjustment on warrants	$-	$-	$(133)
Issuance of stock pursuant to Directors' Stock Plan	-	55	48

7. Inventories

Inventories as of December 31, 2004 and 2003 consisted of:

	2004	2003
	(in thousands)	
Finished goods	$ 42	$ 15
Raw materials	205	177
	$ 247	$ 192

The above amounts are net of reserves for obsolete and slow moving inventory of $21,000 and $15,000 as of December 31, 2004 and 2003, respectively.

8. Property, Plant and Equipment

Property, plant and equipment, at cost, as of December 31, 2004 and 2003 consisted of:

	2004	2003
	(in thousands)	
Land	$ 257	$ 257
Buildings	2,695	2,695
Machinery and equipment	1,635	1,600
Construction in progress	782	-
	5,369	4,552
Less accumulated depreciation	(2,201)	(1,945)
Property, plant and equipment, net	$ 3,168	$ 2,607

The Company recorded depreciation expense related to continuing operations of $256,000, $254,000 and $268,000 in 2004, 2003 and 2002, respectively.

9. Debt

On May 31, 2002, the stockholders of the Company approved, and the Company consummated, the sale of the assets and transfer of the liabilities of the Companion Pet Products division. Upon the sale, the Company paid all of its debt and interest owed to Fleet and ACS. As a result, the Company incurred a $2,654,000 loss from early extinguishment of debt in connection with the prepayment fees paid to Fleet and ACS and the write-off of the ACS debt discount.

The Company received a $246,000 loan to provide partial funding for the costs of investigating and remediating the environmental contamination discovered at the Companion Pet Products facility. The loan required monthly principal payments over a term of ten years at a rate of interest of 5%. The Company received funding of $45,000 and $197,000 under the loan during 2003 and 2002, respectively. On December 18, 2003, the loan was paid in full upon the sale of the former Companion Pet Products facility, which served as collateral for the loan.

10. Stock Warrants

In connection with the $7,000,000 borrowing from American Capital Strategies (ACS), the Company issued a warrant to purchase 1,907,543 shares of IGI common stock at an exercise price of $.01 per share to ACS.

The warrant issued to ACS was valued at issuance date utilizing the Black-Scholes model and initially recorded as a liability, due to the presence of a put right which required the Company to repurchase the warrant or underlying common stock under certain circumstances. The liability was marked-to-market, based on changes in the value of the underlying common stock, with the change in market value recognized as a component of interest expense in the period of change.

On April 12, 2000, ACS and the Company amended the debt agreement and the put provision associated with the original warrant was replaced by a make-whole feature. The make-whole feature required the Company to compensate ACS, in either common stock or cash, at the option of the Company, in the event that ACS ultimately realized proceeds from the sale of the common stock obtained upon exercise of its warrant that were less than the fair value of the common stock upon exercise of such warrant. Fair value of the common stock upon exercise was defined as the 30-day average value prior to notice of intent to sell. ACS was required to exercise reasonable effort to sell or place its shares in the marketplace over a 180-day period, beginning with the date of notice by ACS, before it could invoke the make-whole provision.

As noted above, the make-whole feature required the Company to compensate ACS for any decrease in value between the date that ACS notified the Company that they intended to sell some or all of the stock and the date that ACS ultimately disposed of the underlying stock, assuming that such disposition occurred in an orderly fashion over a period of not more than 180 days. The shortfall could be paid using either cash or shares of the Company's common stock, at the option of the Company. Based on accounting guidance that was issued in September 2000, the Company reflected the detachable stock warrant outside of stockholders' equity (deficit), since the ability to satisfy the make-whole obligation using shares of the Company's common stock was not totally within the Company's control.

On June 26, 2002, the Company received notice from ACS that it was exercising the warrant. ACS opted to satisfy payment of the exercise price through the use of the cashless exercise provisions of the warrant. The Company issued 1,878,640 fully paid up shares of common stock to ACS on July 7, 2002. Based on the provisions of the make-whole feature, the fair value of the common stock was $.67 per share as of the notification date. On July 19, 2002, the Company's Board of Directors approved the purchase of the 1,878,640 shares from ACS for $.70 per share. The Company completed the purchase on July 29, 2002 for $1,315,000 and classified the shares as treasury shares.

In February 1999, the Company granted a warrant to purchase 270,000 shares of common stock, with an exercise price of $2.00 per share. The warrant expired on January 31, 2004.

11. Stock Options and Common Stock

In October 1998, the Company adopted the 1998 Directors Stock Plan. Under this plan, 200,000 shares of the Company's common stock are reserved for issuance to non-employee directors, in lieu of payment of directors' fees in cash. In 2002, 70,011 shares of common stock were issued as consideration for directors' fees. In 2003 and 2002, the Company issued 79,318 and 311 shares of common stock as consideration for directors' fees under the 1999 Stock Incentive Plan ("1999 Plan"). The Company did not issue any shares as consideration for directors' fees in 2004. The Company recognized $24,000, $55,000 and $48,000 of expense related to shares issued to directors during the years ended December 31, 2004, 2003 and 2002, respectively. The amount related to 2004 remains in accrued expenses until the shares are issued.

In December 1998, the Company's Board of Directors adopted the 1999 Employee Stock Purchase Plan ("ESPP"). An aggregate of 300,000 shares of common stock may be issued pursuant to the ESPP. All employees of the Company and its subsidiaries, including officers or directors who are also an employee, are eligible to participate in the ESPP. Shares under this plan are available for purchase at 85% of the fair market value of the Company's stock on the first or last day of the offering period, whichever is lower. The Company issued 19,617, 9,253 and 30,975 shares in 2004, 2003 and 2002, respectively, under the ESPP.

In March 1999, the Company's Board of Directors approved the 1999 Stock Incentive Plan ("1999 Plan"). The 1999 Plan replaced all previously authorized stock option plans, and no additional options may be granted under those plans. Under the 1999 Plan, options or stock awards may be granted to all of the Company's employees, officers, directors, consultants and advisors to purchase a maximum of 1,200,000 shares of common stock. In May 2002, the Company's stockholders approved an increase in the maximum amount of shares to be granted by 800,000, for a total of 2,000,000 shares available for grant. A total of 1,335,916 options (net of cancellations), having a maximum term of ten years, have been granted at 100% of the fair market value of the Company's stock at the time of grant. Options outstanding under the 1999 Plan are generally exercisable in cumulative increments over four years commencing one year from date of grant. In addition, as noted above, 79,629 stock awards have been granted under the 1999 Plan.

In September 1999, the Company's Board of Directors approved the 1999 Director Stock Option Plan. The 1999 Director Stock Option 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 675,000 shares have been approved and

authorized for issuance

pursuant to this plan. In May 2001, an additional 800,000 shares were approved for issuance under this plan, bringing the total to 1,475,000 available for issue under this plan. A total of 1,111,048 options (net of cancellations) have been granted to non-employee directors through December 31, 2004. The options granted under the 1999 Director Stock Option Plan vest in full one year after their respective grant dates and have a maximum term of ten years.

Stock option transactions in each of the past three years under the aforementioned plans in total were:

	1999 Plan		
	Shares	Price Per Share	Weighted Average Price
January 1, 2002 shares			
Under option	2,703,000	$ .50 - $8.58	$2.30
Granted	280,000	.53 - .70	.67
Exercised	(39,000)	.50 - .56	.53
Cancelled	(362,000)	.50 - 8.25	2.50
December 31, 2002 shares			
Under option	2,582,000	.50 - 8.58	2.12
Granted	290,000	.55 - 1.07	.82
Exercised	-	-	-
Cancelled	(592,000)	.52 - 7.61	1.53
December 31, 2003 shares			
Under option	2,280,000	.50 - 8.58	2.03
Granted	618,048	1.05 - 2.25	1.74
Exercised	(176,666)	.55 - 1.94	1.21
Expired	(100,000)	5.59 - 8.58	7.77
Cancelled	(33,334)	.85	.85
December 31, 2004			
Under option	2,588,048	.50 - 8.25	1.85
Exercisable options at:			
December 31, 2002	2,454,398		$2.19
December 31, 2003	2,019,252		$2.24
December 31, 2004	2,320,001		$1.92

The Company uses the intrinsic value method to account for stock options issued to employees and to directors. The Company uses the fair value method to account for stock options issued to non-employee consultants. No options were granted to consultants in 2002. The Company granted 300,000 and 25,000 options in 2004 and 2003, respectively, to a

consultant. The expense related to such options, which amounted to $545,000 in 2004 was recorded in product development and research expense.

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ .50 to $1.00	800,500	6.79	$ .65	800,500	$ .65
1.01 to 2.00	1,097,798	6.45	1.52	829,751	1.60
2.01 to 3.00	419,750	7.61	2.32	419,750	2.32
3.01 to 4.00	50,000	3.00	3.75	50,000	3.75
5.01 to 6.00	90,000	1.91	5.81	90,000	5.81
6.01 to 7.00	100,000	1.47	6.69	100,000	6.69
8.01 to 8.25	30,000	0.99	8.25	30,000	8.25
$ .50 to $8.25	2,588,048	6.25	$1.85	2,320,001	$1.92

12. Income Taxes

The provision (benefit) for income taxes attributable to loss from continuing operations before provision (benefit) for income taxes for the years ended December 31, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
	(in thousands)		
Current tax expense (benefit):			
Federal	$ -	$ -	$ -
State and local	(290)	(208)	330
Total current tax expense (benefit)	(290)	(208)	330
Deferred tax expense			
Federal	-	-	-
State and local	-	-	-
Total deferred tax expense	-	-	-
Total expense (benefit) for income taxes	$(290)	$(208)	$ 330

	=====	=====	=====

The Company sold some of its New Jersey operating loss carryforwards in exchange for net proceeds of $298,000, $224,000 and $249,000 in 2004, 2003 and 2002, respectively. During the year ended December 31, 2002, the Company paid $558,000 to purchase some New Jersey operating loss carryforwards.

The provision (benefit) for income taxes differed from the amount of income taxes determined by applying the applicable Federal tax rate (34%) to pretax loss from continuing operations as a result of the following:

	2004	2003	2002
		(in thousands)	
Statutory benefit	$(405)	$(328)	$(952)
Other non-deductible expenses	1	25	16
State income taxes, net of valuation allowance	(191)	(137)	330
Increase in Federal valuation allowance	305	234	936
Other, net	-	(2)	-
	$(290)	$(208)	$ 330

Deferred tax assets included in the Consolidated Balance Sheets as of December 31, 2004 and 2003 consisted of the following:

	2004	2003
	(in thousands)	
Property, plant and equipment	$ 67	$ 52
Prepaid license agreement	202	402
Deferred royalty payments	121	149
Tax operating loss carryforwards	5,978	5,349
Tax credit carryforwards	666	691
Reserves	15	6
Inventory	31	16
Non-employee stock options	394	177
Other future deductible temporary differences	33	41
Other future taxable temporary differences	(16)	(21)
	7,491	6,862
Less: valuation allowance	(7,491)	(6,862)
Deferred taxes, net	$ -	$ -

The Company evaluates the recoverability of its deferred tax assets based on its history of operating earnings, its plan to sell the benefit of

certain state net operating loss carryforwards, its expectations for the future, and the expiration dates of the net operating loss carryforwards. The Company has concluded that it is more likely than not that it will be unable to realize the gross deferred tax assets in the foreseeable future and has established a valuation reserve for all such deferred tax assets.

Operating loss and tax credit carryforwards for tax reporting purposes as of December 31, 2004 were as follows:

	(in thousands)
Federal:	
Operating losses (expiring through 2024)	$ 13,722
Research tax credits (expiring through 2020)	551
Alternative minimum tax credits (available without expiration)	28
State:	
Net operating losses - New Jersey (expiring through 2012)	13,715
Research tax credits - New Jersey (expiring through 2010)	58
Alternative minimum assessment - New Jersey (available without expiration)	29

Federal net operating loss carryforwards that expire through 2024 have significant components expiring in 2018 (15%), 2019 (15%), 2020 (53%), and 2021 (9%).

13. Commitments and Contingencies

The Company leases machinery and equipment under non-cancelable operating lease agreements expiring at various dates in the future. Rental expense aggregated approximately $42,000 in 2004, $44,000 in 2003, and $70,000 in 2002. Future minimum rental commitments under non-cancelable operating leases as of December 31, 2004 are as follows:

Year	(in thousands)
2005	$ 34
2006	25
2007	22
2008	22
2009	22
Thereafter	-
Total	$125

The Company has an option, which is exercisable on December 13, 2005, to extend its exclusive license for the use of the Novasome(R) microencapsulation technologies in certain specific fields for an

additional ten-year term in exchange for a $1,000,000 cash payment.

14. Legal and U.S. Regulatory Proceedings

Gallo Matter

As previously reported by the Company in its historical filings with the Securities and Exchange Commission ("SEC"), including, without limitation, its Form 10-K for the year ending December 31, 1999, for most of 1997 and 1998 the Company was subject to intensive government regulatory scrutiny by the U.S. Departments of Justice, Treasury and Agriculture. In June 1997, the Company was advised by the Animal and Plant Health Inspection Service ("APHIS") of the United States Department of Agriculture ("USDA") that the Company had shipped quantities of some of its poultry vaccine products without complying with certain regulatory and record keeping requirements. The USDA subsequently issued an order that the Company stop shipment of certain of its products. Shortly thereafter, in July 1997, the Company was advised that the USDA's Office of Inspector General had commenced an investigation into possible violations of the Virus Serum Toxin Act of 1914 and alleged false statements made to APHIS. In April 1998, the SEC advised the Company that it was conducting an informal inquiry and requested information and documents from the Company, which the Company voluntarily provided to the SEC.

Based upon these events, the Board of Directors caused an immediate and thorough investigation of the facts and circumstances of the alleged violations to be undertaken by independent counsel. The Company continued to refine and strengthen its regulatory programs with the adoption of a series of compliance and enforcement policies, the addition of new managers of Production and Quality Control and a new Senior Vice President and General Counsel. At the instruction of the Board of Directors, the Company's General Counsel established and oversaw a comprehensive employee training program, designated in writing a Regulatory Compliance Officer, and established a fraud detection program, as well as an employee "hotline." The Company continued to cooperate with the USDA and SEC in all aspects of their investigation and regulatory activities. On March 13, 2002, the Company reached a settlement with the staff of the SEC to resolve matters arising with respect to the investigation of the Company. Under the settlement, the Company neither admitted nor denied that the Company violated the financial reporting and record-keeping requirements of Section 13 of the Securities and Exchange Act of 1934, as amended, for the three years ended December 31, 1997.

Further, the Company agreed to the entry of an order to cease and desist from any such violation in the future. No monetary penalty was assessed.

As a result of its internal investigation, in November 1997, the Company terminated the employment of John P. Gallo as President and Chief Operating Officer for willful misconduct. On April 21, 1998, the Company instituted a lawsuit against Mr. Gallo in the New Jersey Superior Court. The lawsuit alleged willful misconduct and malfeasance in office, as well as embezzlement and related claims (referred to as the "IGI Action"). On April 28, 1998, Mr. Gallo instituted a separate action against the Company and two of its Directors, Edward Hager, M.D. and Constantine Hampers, M.D., alleging that he had been wrongfully terminated from employment and further alleging wrongdoings by the two Directors (referred to as the "Gallo Action"). The Court subsequently ordered the consolidation of the IGI Action and the Gallo Action (collectively referred to as the

"Consolidated Action").

In response to these allegations, the Company instituted an investigation of the two Directors by an independent committee ("Independent Committee") of the Board assisted by the Company's General Counsel. The investigation included a series of interviews of the Directors, both of whom cooperated with the Company, and a review of certain records and documents. The Company also requested an interview with Mr. Gallo who, through his counsel, declined to cooperate. In September 1998, the Independent Committee reported to the Board that it had found no credible evidence to support Mr. Gallo's claims and allegations and recommended no further action. The Board adopted the recommendation.

The Company denied all allegations plead in the Gallo Action and asserted all claims in the Gallo Action to be without merit. The Company did not reserve any amount relating to such claims. The Company tendered the claim to its insurance carriers, but was denied insurance coverage for both defense and indemnity of the Gallo Action.

In July 1998, the Company sought to depose Mr. Gallo in connection with the Consolidated Action. Through his counsel, Mr. Gallo asserted his Fifth Amendment privilege against self-incrimination and advised that he would not participate in the discovery process until such time as a federal grand jury investigation, in which he was a target, was concluded. In January 1999, at the suggestion of the Court, the Company and Mr. Gallo agreed to a voluntary dismissal without prejudice of the Consolidated Action, with the understanding that the statute of limitations was tolled for all parties and all claims, and that the Company and Mr. Gallo were free to reinstate their suits against each other at a later date, with each party reserving all of their rights and remedies against the other.

As of the date hereof, neither the Company nor Mr. Gallo have filed suit against each other in the Superior Court of New Jersey or any other court of competent jurisdiction to reinstitute the claims, in whole or part, previously at issue in the Consolidated Action, and pursuant to the previous order of dismissal entered in the Consolidated Action, the statute of limitation on all claims and defenses continues to be tolled as to both parties. However, the Company did receive a letter dated November 21, 2003 from Mr. Gallo's attorneys seeking to reach a settlement of the claims asserted against IGI in the Gallo Action without further resort to the courts. The letter provides a general description of Mr. Gallo's claims and a calculation of damages allegedly sustained by Mr. Gallo relative thereto. The letter states that Mr. Gallo's damages are calculated to be in the range of $3,400,000 to $5,100,000. The Company denies liability for the claims and damages alleged in the letter from Mr. Gallo's counsel dated November 21, 2003, and as such, the Company did not make any formal response thereto. Mr. Gallo has contacted the Company's Chief Executive Officer & Chairman, Frank Gerardi, in a continued effort to initiate settlement discussions. As of the present date, the Company continues to deny any merit and/or liability for the claims alleged by Mr. Gallo and has not engaged in any formal settlement discussions with either Mr. Gallo or his attorneys.

On December 8, 2003, Mr. Gallo filed suit against Novavax, Inc. in the Superior Court of New Jersey, Law Division, Atlantic County, docket no. ATL-L-3388-03, asserting claims under seven counts for damages allegedly sustained as a result of the cancellation of certain Novavax stock options held by Mr. Gallo due to his termination from IGI in November 1997 for willful misconduct (referred to as the "Novavax Action").

On March 5, 2004, Novavax filed an Answer denying the allegations asserted by Mr. Gallo in his First Amended Complaint. In addition, while

denying any liability under the First Amended Complaint, Novavax also filed a Third Party Complaint in the Novavax Action against the Company for contribution and indemnification, alleging that if liability for Mr. Gallo's claims is found, the Company has primary liability for any and all such damages sustained.

IGI has been notified by its insurance carriers that coverage is not afforded under their respective policies of insurance for defense and/or indemnification of the claims alleged by the Third Party Complaint. After IGI was notified of the foregoing, but prior to IGI's filing of any responsive pleading, the Third Party Complaint against IGI was voluntarily dismissed without prejudice by Novavax on June 30, 2004. Novavax may at any time pursuant to the rules of court re-file its Third Party Complaint against IGI.

In July 2004, Novavax filed a motion for summary judgment on all claims asserted under Gallo's First Amended Complaint (referred to as "the SJ Motion"). Gallo filed in opposition to the SJ Motion contesting all relief sought thereunder. In August 2004, the Court held a hearing on the SJ Motion and denied without prejudice the relief sought by the motion for dismissal of Gallo's First

Amended Complaint. Upon information and belief, the parties are currently proceeding with discovery in the Novavax Action. The Company, as a non-party witness in the Novavax Action, was recently served by counsel for Gallo with a subpoena for the production of documents as responsive thereto.

As of the date hereof, Novavax has not sought to re-file its Third Party Complaint against IGI for which coverage was previously denied by its insurance carriers, Novavax is not precluded from doing so and may seek to do so in the future.

Other Matters

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 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 penalties related to such NOV's.

On March 2, 2001, the Company discovered the presence of environmental contamination resulting from an unknown heating oil leak at its Companion Pet Products manufacturing 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 $82,000 remains accrued as of December 31, 2004. The remediation was completed by September 30, 2003. There will be periodic testing and removal performed, which is projected to span over the next five years. The estimated cost of the monitoring is included in

the accrual.

This contamination also spread to the property adjacent to the manufacturing facility and the Company is currently involved in a lawsuit with the owner of that property, Ted Borz. Mr. Borz runs a business on that property and he seeking remuneration for loss of income and the reduction in his property value from IGI as a result of the oil spill. IGI believes that it has performed all the necessary tasks required to properly decontaminate Mr. Borz's property. Management does not feel that it is possible to estimate the outcome of this case at this date.

The Company's common stock is listed on the American Stock Exchange ("AMEX"). Based on the Company's 2004 results, the Company is not in compliance with the AMEX requirement for reporting income from continuing operations and net income for the year ended December 31, 2004 which could subject it to potentially being delisted from AMEX. As of March 15, 2005, the Company has not been contacted by AMEX concerning the Company's non-compliance with the AMEX requirements.

15. Employee Benefits

The Company has a 401(k) contribution plan, pursuant to which employees who have completed six months of employment with the Company or its subsidiaries as of specified dates, may elect to contribute to the plan, in whole percentages, up to 18% of compensation. Employees' contributions are subject to a minimum contribution by participants of 1% of compensation and a maximum contribution of $13,000 for 2004 and $12,000 for 2003. The Company matches 25% of the first 5% of compensation contributed by participants and contributes, on behalf of each participant, $4 per week of employment during the year. The Company contribution is in the form of either common stock or cash, which is vested immediately. The Company has recorded charges to expense related to this plan of approximately $ 8,000, $15,000 and $23,000 in 2004, 2003 and 2002, respectively.

16. License Agreement with Dr. Michael Holick

On December 24, 2003, the Company entered into a License Agreement with Dr. Holick and A&D Bioscience, Inc., a Massachusetts corporation wholly owned by Dr. Holick (collectively referred to as "Holick"), whereby Holick granted an exclusive license to the Company to all his rights to the parathyroid hormone related peptide technologies and the glycoside technologies (referred to as "PTH Technologies" and "Glycoside Technologies", respectively) that he developed for various clinical usages including treatment of psoriasis, hair loss and other skin disorders. In consideration for entering into the License Agreement, Holick received up-front a $50,000 non-refundable payment from the Company. He also received a grant of 300,000 stock options under the Company's authorized stock option plans. Holick was also entitled to receive a $236,000 milestone payment that was contingent on the execution of a sublicense agreement between the Company and a third-party for the licensed technology.

On April 19, 2004, IGI signed a sublicense agreement with Tarpan Therapeutics, Inc. ("Tarpan") for the PTH (1-34) technology under which the third-party will be obligated at its sole cost and expense to develop and bring the PTH (1-34) technology to market as timely and efficiently as possible, which includes its sole responsibility for the cost of preclinical and clinical development, research and development,

manufacturing, laboratory and clinical testing and trials and marketing of products. In addition, the sublicense agreement calls for various payments to IGI throughout the term. IGI was paid a lump sum sublicense fee of $300,000, from which amount IGI paid the sum of $232,000 to Dr. Holick, representing the $236,000 payment due to Dr. Holick in accordance with the terms of his License Agreement with the Company, net of $4,000 of additional legal fees. Certain subsequent royalty payments received by the Company under the sublicense agreement will be shared with Holick after the Company has recovered any payments previously made to Holick under the License Agreement and an amount equal to the value of the options received by Holick under the License Agreement. The Company is responsible for any and all costs, fees and expenses for the prosecution and oversight of any intellectual property rights related to the licensed technologies. The term of the License Agreement is the longer of twenty (20) years or the life of each of the patents thereunder. The License Agreement, however, granted Holick the right to terminate the Company's license to (i) the Glycoside Technologies if the Company did not sublicense the Glycoside Technologies within 90 days of the effective date of the License Agreement, and (ii) the PTH Technologies if the Company did not sublicense the PTH Technologies within 90 days of the effective date of the License Agreement. As noted above, the Company entered into a sublicense agreement for the PTH Technologies on April 19, 2004. The Company did not, however, sublicense the Glycoside Technologies within the 90 day period. As a result, Holick terminated the Company's license to the Glycoside Technologies on April 5, 2004. The Company is engaged in discussions with the same third-party entity for a similar sublicense for the PTH (7-34) technology.

The $50,000 payment to Holick was expensed in the third quarter of 2003 and the $236,000 payment to Holick was expensed in the second quarter of 2004 because the PTH Technologies are in a preliminary development phase and do not have any readily determinable alternative future use. The other consideration called for under the License Agreement, such as amounts advanced for the prosecution and oversight of any intellectual property rights related to the licensed technologies which amounted to $27,500 and the fair value of the 300,000 stock options granted to Holick, which amounted to $520,000, was also expensed by the Company in the second quarter of 2004 (included in product development and research expenses in the Consolidated Statement of Operations), when the sublicense agreement with Tarpan was executed and Holick could no longer terminate the license agreement as it relates to the PTH Technologies and the options became fully vested. The fair value of the stock options was calculated under SFAS No. 123 using the Black-Scholes model.

17. Quarterly Consolidated Financial Data (Unaudited)

Following is a summary of the Company's quarterly results for each of the quarters in the years ended December 31, 2004 and 2003 (in thousands, except per share information).

	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Total revenues	$ 987	$ 1,198	$ 582	$ 791
Operating loss	(4)	(846)	(223)	(147)

Income (loss) from continuing operations	3	(842)	(219)	166
Net income (loss)	3	(842)	(219)	166
Basic income (loss) per share	$ .00	$ (.07)	$ (.02)	$ .01
Diluted income (loss) per share	.00	(.07)	(.02)	.01

	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Total revenues	$ 1,008	$ 844	$ 899	$ 806
Operating profit (loss)	32	(520)	(241)	(243)
Income (loss) from continuing operations	36	(518)	(242)	(33)
Net income (loss)	36	(349)	(257)	248
Basic and diluted income (loss) per share				
Continuing operations	$ .00	$ (.05)	$ (.02)	$ .00
Net income (loss)	.00	(.03)	(.02)	.02

The fourth quarter of 2004 and 2003 include $298,000 and $224,000 respectively of tax benefit from the sale of New Jersey state net operating loss carryforwards.

IGI, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(amounts in thousands)

COL. A	COL. B	COL. C		COL. D
		Additions		
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions
December 31, 2002:				
Allowance for doubtful accounts	$122	$ 3	$ 24(C)	$114(A)
Obsolete and slow moving inventory reserve	5	20	-	15(B)
December 31, 2003				
Allowance for doubtful accounts	$ 35	$ 1	$(20)(D)	$ -
Obsolete and slow moving inventory reserve	10	9	-	4(B)
December 31, 2004				

Allowance for doubtful accounts	$ 16	1		$ 7(A)
Obsolete and slow moving inventory reserve	15	6	-	-

IGI, INC. AND SUBSIDIARIES
INDEX TO EXHIBITS REQUIRED TO BE FILED BY ITEM 601 OF
REGULATION S-K (Section 229.601)

(3)(a)	Certificate of Incorporation of IGI, Inc., as amended. [Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, File No. 33-63700, filed June 2, 1993.]
(3)(b)	By-laws of IGI, Inc., as amended. [Incorporated by reference to Exhibit 2(b) to the Company's Registration Statement on Form S-18, File No. 002-72262-B, filed May 12, 1981.]
(4)	Specimen stock certificate for shares of Common Stock, par value $.01 per share. [Incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 001-08568, filed March 28, 2001 ("the 2000 Form 10-K").]
(10.1)	IGI, Inc. 1989 Stock Option Plan. [Incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Stockholders held May 11, 1989, File No. 001-08568, filed April 12, 1989.]
(10.2)	IGI, Inc. Non-Qualified Stock Option Plan. [Incorporated by reference to Exhibit 3(k) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, File No. 001-08568, filed March 30, 1992 ("the 1991 Form 10-K").]
(10.3)	Amendment No. 1 to IGI, Inc. 1991 Stock Option Plan as approved by Board of Directors on March 11, 1993. [Incorporated by reference to Exhibit 10(p) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992 ("the 1992 Form 10-K").]
(10.4)	Amendment No. 2 to IGI, Inc. 1991 Stock Option Plan as approved by Board of Directors on March 22, 1995. [Incorporated by reference to the Appendix to the Company's Proxy Statement for the Annual Meeting of Stockholders held May 9, 1995, filed April 14, 1995.]
(10.5)	Amendment No. 3 to IGI, Inc. 1991 Stock Option Plan as approved by Board of Directors on March 19, 1997. [Incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, File No. 001-08568, filed August 14, 1997.]
(10.6)	Amendment No. 4 to IGI, Inc. 1991 Stock Option Plan as approved by Board of Directors on March 17, 1998. [Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 001-08568, filed November 6, 1998.]
(10.7)	Supply Agreement, dated as of January 27, 1997, between IGI, Inc. and Glaxo Wellcome Inc. [Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q/A, Amendment No. 1, for the quarter ended March 31, 1997, File No. 001-08568, filed June 16, 1997.]
(10.8)	IGI, Inc. 1998 Director Stock Option Plan as approved by the Board of Directors on October 19, 1998. [Incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, File No. 001-08568, filed

April 12, 1999 ("the 1998 Form 10-K").]

(10.9) Common Stock Purchase Warrant No. 5 to purchase 150,000 shares of IGI, Inc. Common Stock issued to Fleet Bank, NH on March 11, 1999. [Incorporated by reference to Exhibit 10.40 to the 1998 Form 10-K.]

(10.10) IGI, Inc. 1999 Director Stock Option Plan as approved by the Board of Directors on September 15, 1999. [Incorporated by reference to Exhibit 99.1 to the Company's Registration on Form S-8, File No. 333-52312, filed December 20, 2000.]

(10.11) Common Stock Purchase Warrant No. 7 to purchase 120,000 shares of IGI, Inc. Common Stock issued to Mellon Bank, N.A. on March 11, 1999. [Incorporated by reference to Exhibit 10.42 to the 1998 Form 10-K.]

(10.12) Employment Agreement, dated May 1, 1998, between IGI, Inc. and Paul Woitach. [Incorporated by reference to Exhibit 10.44 to the 1998 Form 10-K.]

(10.13) Loan and Security Agreement by and among Fleet Capital Corporation and IGI, Inc., together with its subsidiaries, dated October 29, 1999. [Incorporated by reference to Exhibit 10.21 to the Company's Annual Report for the fiscal year ended December 31, 1999, File No. 0001-08568, filed April 14, 2000 ("the 1999 Form 10-K").]

(10.14) Revolving Credit Note issued by IGI, Inc., together with its subsidiaries, to Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.22 to the 1999 Form 10-K.]

(10.15) Term Loan A Note issued by IGI, Inc., together with its subsidiaries, to Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.23 to the 1999 Form 10-K.]

(10.16) Term Loan B Note issued by IGI, Inc., together with its subsidiaries, to Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.24 to the 1999 Form 10-K.]

(10.17) Capital Expenditure Loan Note issued by IGI, Inc., together with its subsidiaries, to Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.25 to the 1999 Form 10-K.]

(10.18) Trademark Security Agreement issued by IGI, Inc. in favor of Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.26 to the 1999 Form 10-K.]

(10.19) Trademark Security Agreement issued by IGEN, Inc. in favor of Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.27 to the 1999 Form 10-K.]

(10.20) Trademark Security Agreement issued by Immunogenetics, Inc. in favor of Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.28 to the 1999 Form 10-K.]

(10.21) Patent Security Agreement issued by IGI, Inc. in favor of Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.29 to the 1999 Form 10-K.]

(10.22) Patent Security Agreement issued by IGEN, Inc. in favor of Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.30 to the 1999 Form 10-K.]

(10.23) Pledge Agreement by and between Fleet Capital Corporation and IGEN, Inc., dated October 29, 1999. [Incorporated by reference to Exhibit 10.31 to the 1999 Form 10-K.]

(10.24) Open-Ended Mortgage, Security Agreement and Assignment of Leases and Rents (Atlantic County, New Jersey) issued by IGI, Inc. to Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.32 to the 1999 Form 10-K.]

(10.25) Open-Ended Mortgage, Security Agreement and Assignment of Leases and Rents (Cumberland County, New Jersey) issued by IGI, Inc. to Fleet Capital Corporation, dated October 29, 1999. [Incorporated by reference to Exhibit 10.33 to the 1999 Form 10-K.]

(10.26) Subordination Agreement by and between Fleet Capital Corporation and American Capital Strategies, Ltd., dated October 29, 1999. [Incorporated by reference to Exhibit 10.34 to the 1999 Form 10-K.]

(10.27) Note and Equity Purchase Agreement by and among American Capital Strategies, Ltd. and IGI, Inc., together with its subsidiaries, dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.35 to the 1999 Form 10-K.]

(10.28) Series A Senior Secured Subordinated Note issued by IGI, Inc., together with its subsidiaries, to American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.36 to the 1999 Form 10-K.]

(10.29) Series B Senior Secured Subordinated Note issued by IGI, Inc., together with its subsidiaries, to American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.37 to the 1999 Form 10-K.]

(10.30) Warrant to purchase 1,907,543 shares of IGI, Inc. Common Stock, issued to American Capital Strategies, Ltd. on October 29, 1999. [Incorporated by reference to Exhibit 10.38 to the 1999 Form 10-K.]

(10.31) Security Agreement issued by IGI, Inc., together with its subsidiaries, in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.39 to the 1999 Form 10-K.]

(10.32) Trademark Security Agreement issued by IGI, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.40 to the 1999 Form 10-K.]

(10.33) Trademark Security Agreement issued by Immunogenetics, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.41 to the 1999 Form 10-K.]

(10.34) Trademark Security Agreement issued by Blood Cells, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.42 to the 1999 Form 10-K.]

(10.35) Trademark Security Agreement issued by IGEN, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.43 to the 1999 Form 10-K.]

(10.36) Patent Security Agreement issued by IGI, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.44 to the 1999 Form 10-K.]

(10.37) Patent Security Agreement issued by Immunogenetics, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.45 to the 1999 Form 10-K.]

(10.38) Patent Security Agreement issued by Blood Cells, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.46 to the 1999 Form 10-K.]

(10.39) Patent Security Agreement issued by IGEN, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999.

[Incorporated by reference to Exhibit 10.47 to the 1999 Form 10-K.]

(10.40) Georgia Leasehold Deed to Secure Debt issued by IGI, Inc. in favor of American Capital Strategies, dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.48 to the 1999 Form 10-K.]

(10.41) Open-Ended Mortgage, Security Agreement and Assignment of Leases and Rents (Cumberland County, New Jersey) issued by IGI, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.49 to the 1999 Form 10-K.]

(10.42) Open-Ended Mortgage, Security Agreement and Assignment of Leases and Rents (Atlantic County, New Jersey) issued by IGI, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.50 to the 1999 Form 10-K.]

(10.43) Pledge and Security Agreement issued by IGI, Inc. and Immunogenetics, Inc. in favor of American Capital Strategies, Ltd., dated as of October 29, 1999. [Incorporated by reference to Exhibit 10.51 to the 1999 Form 10-K.]

(10.44) Employment Agreement between IGI, Inc. and Manfred Hanuschek dated as of July 26, 1999. [Incorporated by reference to Exhibit 10.52 to the 1999 Form 10-K.]

(10.45) Amendment to Employment Agreement between Manfred Hanuschek and IGI, Inc. dated March 9, 2000. [Incorporated by reference to Exhibit 10.53 to the 1999 Form 10-K.]

(10.46) Employment Agreement between IGI, Inc. and Robert McDaniel dated as of September 1, 1999. [Incorporated by reference to Exhibit 10.54 to the 1999 Form 10-K.]

(10.47) Pledge Agreement by and between Fleet Capital Corporation and IGI, Inc., dated October 29, 1999. [Incorporated by reference to Exhibit 10.55 to the 1999 Form 10-K.]

(10.48) Employment Agreement between IGI, Inc., and Rajiv Mathur dated February 22, 1999. [Incorporated by reference to Exhibit 10.56 to the 1999 Form 10-K.]

(10.49) Amendment No. 1 to the Note and Equity Purchase Agreement by and between American Capital Strategies, Ltd. and IGI, Inc., together with its subsidiaries dated as of March 30, 2000. [Incorporated by reference to Exhibit 10.57 to the 1999 Form 10-K.]

(10.50) Amendment to Loan and Security Agreement by and between Fleet Capital Corporation and IGI, Inc., together with its subsidiaries dated as of April 12, 2000. [Incorporated by reference to Exhibit 10.58 to the 1999 Form 10-K.]

(10.51) Amendment No. 2 to Note and Equity Purchase Agreement dated as of June 26, 2000 by and among IGI, Inc., IGEN, Inc., Immunogenetics, Inc., Blood Cells, Inc., American Capital Strategies, Ltd. and ACS Funding Trust I. [Incorporated by reference to Exhibit 99.1 to the Company's Report on Form 8-K filed July 23, 2000.]

(10.52) Second Amendment to Loan and Security Agreement dated as of June 23, 2000 by and among IGI, Inc., IGEN, Inc., Immunogenetics, Inc., Blood Cells, Inc. and Fleet Capital Corporation. [Incorporated by reference to Exhibit 99.2 to the Company's Report on Form 8-K filed July 23, 2000.]

(10.53) Termination Agreement dated December 10, 1998 between the Company and Glaxo Wellcome, Inc. [Incorporated by reference to Exhibit 10.61 to the 1999 Form 10-K.]

(10.54) Asset Purchase Agreement dated as of June 19, 2000 by and between

the Buyer and the Company. [Incorporated by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A effective September 1, 2000.]

(10.55) Amendment and Waiver to Loan and Security Agreement dated as of October 31, 2000 between Fleet Capital Corporation and the Company and its affiliates. [Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, filed November 14, 2000.]

(10.56) Letter Waiver dated November 9, 2000 between American Capital Strategies, Ltd. and the Company and its affiliates. [Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, filed November 14, 2000.]

(10.57) Separation Agreement and General Release dated September 1, 2000 between the Company and Paul Woitach. [Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, filed November 14, 2000.]

(10.58) Certificate of Release and Termination of Contract dated as of March 1, 2001 between Genesis Pharmaceutical, Inc. and Tristrata Technology, Inc. [Incorporated by reference to Exhibit 10.58 to the 2000 Form 10-K.]

(10.59) Manufacturing and Supply Agreement dated as of February 14, 2001 among IGI, Inc., IGEN, Inc., Immunogenetics, Inc. and Genesis Pharmaceutical, Inc. [Incorporated by reference to Exhibit 10.59 to the 2000 Form 10-K.]

(10.60) Assignment of Trademark dated as of February 14, 2001 among IGI, Inc., IGEN, Inc, Immunogenetics, Inc. and Genesis Pharmaceutical, Inc. [Incorporated by reference to Exhibit 10.60 to the 2000 Form 10-K.]

(10.61) Supply Agreement dated as of March 6, 2001 between Corwood Laboratory, Inc. and IGI, Inc. [Incorporated by reference to Exhibit 10.61 to the 2000 Form 10-K.]

(10.62) License Agreement dated as of March 6, 2001 among IGI, Inc., IGEN, Inc., Immunogenetics, Inc. and its division EVSCO Pharmaceutical and Corwood Laboratory, Inc. [Incorporated by reference to Exhibit 10.62 to the 2000 Form 10-K.]

(10.63) Employment Agreement between IGI, Inc. and Domenic N. Golato dated as of August 31, 2000. [Incorporated by reference to Exhibit 10.63 to the 2000 Form 10-K.]

(10.64) IGI, Inc. 1991 Stock Option Plan. [Incorporated by reference to the Company's Proxy Statement for the Annual Meeting held May 9, 1991, File No. 001-08568, filed April 5, 1991.]

(10.65) Fourth Amendment to Loan and Security Agreement dated as of February 28, 2001 by and among IGI, Inc., IGEN, Inc., Immunogenetics, Inc., Blood Cells, Inc., and Fleet Capital Corporation. [Incorporated by reference to Exhibit 99.1 to the Company's Report on Form 8-K filed April 20, 2001.]

(10.66) Amendment No. 4 to Note and Equity Purchase Agreement dated as of February 28, 2001 by and among IGI, Inc., IGEN, Inc., Immunogenetics, Inc., Blood Cells, Inc., American Capital Strategies, Ltd. and ACS Funding Trust I. [Incorporated by reference to Exhibit 99.2 to the Company's Report on Form 8-K filed April 20, 2001.]

(10.67) Asset Purchase Agreement dated as of February 6, 2002 by and between Vetoquinol, U.S.A., Inc. and IGI, Inc. with Vetoquinol, S.A. a party thereto with respect to Article X thereof. [Incorporated by reference to Exhibit 99.1 to the Company's Report on Form 8-K filed February 7, 2002.]

(10.68) Research and Development Agreement dated as of January 2, 2001 between IGI, Inc. and Prime Pharmaceutical Corporation. [Incorporated by reference to Exhibit 10.68 on the Company's Annual Report on Form 10-K for fiscal year ended December 31,

2001, File No. 001-08568, filed on March 15, 2002 ("the 2001 Form 10-K").]

(10.69) Manufacturing and Supply Agreement dated November 5, 2002 between IGI, Inc. and Desert Whale Jojoba Company, Inc. [Incorporated by reference to Exhibit 10.69 on the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, File No. 001-08568, filed March 10, 2003 ("the 2002 Form 10-K).]

(10.70) Loan Agreement dated January 10, 2002 between IGI, Inc. and the New Jersey Economic Development Authority. [Incorporated by reference to Exhibit 10.70 to the 2002 Form 10-K]

(10.71) Promissory Note dated January 10, 2002 by IGI, Inc. to the New Jersey Economic Development Authority. [Incorporated by reference to Exhibit 10.71 to the 2002 Form 10-K]

(10.72) Mortgage and Security Agreement and Fixture Filing dated January 10, 2002 between IGI, Inc. and the New Jersey Economic Development Authority. [Incorporated by reference to Exhibit 10.72 to the 2002 Form 10-K]

(10.73) Contract of Sale for Real Estate dated October 21, 2001 between IGI, Inc. and Poultry Investors, LLC. [Incorporated by reference to Exhibit 10.73 to the 2002 Form 10-K]

(10.74) Addendum dated November 14, 2001 to Contract of Sale for Real Estate dated October 21, 2001 between IGI, Inc. and Poultry Investors, LLC. [Incorporated by reference to Exhibit 10.74 to the 2002 Form 10-K]

(10.75) Partial Mortgage Release dated February 20, 2002 by Fleet Capital Corporation for real property designated on the municipal tax map for the Township of Buena Vista, New Jersey as Lot 23.01, Block 5501. [Incorporated by reference to Exhibit 10.75 to the 2002 Form 10-K]

(10.76) Partial Mortgage Release dated February 22, 2002 by American Capital Strategies, Ltd. for real property designated on the municipal tax map for the Township of Buena Vista, New Jersey as Lot 23.01, Block 5501. [Incorporated by reference to Exhibit 10.76 to the 2002 Form 10-K]

(10.77) Amendment No. 5 dated May 30, 2002 to Note and Equity Agreement by and among IGI, Inc., IGEN, Inc., Immunogenetics, Inc., Blood Cells, Inc. and American Capital Strategies, Ltd. [Incorporated by reference to Exhibit 10.77 to the 2002 Form 10-K]

(10.78) Termination and Release of Pledge and Security Agreement dated May 31, 2002 by and among IGI, Inc., IGEN, Inc., Immunogenetics, Inc., Blood Cells, Inc. and American Capital Strategies, Ltd. [Incorporated by reference to Exhibit 10.78 to the 2002 Form 10-K]

(10.79) Termination and Release of Patent Security Agreement (United States Patents) dated May 30, 2002 between American Capital Strategies, Ltd. and IGI, Inc. [Incorporated by reference to Exhibit 10.79 to the 2002 Form 10-K]

(10.80) Termination and Release of Patent Security Agreement (United States Patents) dated May 30, 2002 between American Capital Strategies, Ltd. and Blood Cells, Inc. [Incorporated by reference to Exhibit 10.80 to the 2002 Form 10-K]

(10.81) Termination and Release of Patent Security Agreement (United States Patents) dated May 30, 2002 between American Capital Strategies, Ltd. and IGEN, Inc. [Incorporated by reference to Exhibit 10.81 to the 2002 Form 10-K]

(10.82) Termination and Release of Patent Security Agreement (United States Patents) dated May 30, 2002 between American Capital

Strategies, Ltd. and Immunogenetics, Inc. [Incorporated by reference to Exhibit 10.82 to the 2002 Form 10-K]

(10.83) Termination and Release of Trademark Security Agreement dated May 30, 2002 between American Capital Strategies, Ltd. and IGI, Inc. [Incorporated by reference to Exhibit 10.83 to the 2002 Form 10-K]

(10.84) Termination and Release of Trademark Security Agreement dated May 30, 2002 between American Capital Strategies, Ltd. and IGEN, Inc. [Incorporated by reference to Exhibit 10.84 to the 2002 Form 10-K]

(10.85) Termination and Release of Trademark Security Agreement dated May 30, 2002 between American Capital Strategies, Ltd. and Immunogenetics, Inc. [Incorporated by reference to Exhibit 10.85 to the 2002 Form 10-K]

(10.86) Termination and Release of Trademark Security Agreement dated May 30, 2002 between American Capital Strategies, Ltd. and Blood Cells, Inc.[Incorporated by reference to Exhibit 10.86 to the 2002 Form 10-K]

(10.87) Termination and Release of Trademark Security Agreement dated May 31, 2002 by and among Wachovia Bank, N.A. and IGI, Inc., IGEN, Inc., Immunogenetics, Inc., Micro-Pak, Inc. and Micro Vescular Systems, Inc. [Incorporated by reference to Exhibit 10.87 to the 2002 Form 10-K]

(10.88) Termination and Release of Trademark Security Agreement dated May 31, 2002 between Fleet Capital Corporation and IGI, Inc. [Incorporated by reference to Exhibit 10.88 to the 2002 Form 10-K]

(10.89) Termination and Release of Trademark Security Agreement dated May 31, 2002 between Fleet Capital Corporation and Immunogenetics, Inc. [Incorporated by reference to Exhibit 10.89 to the 2002 Form 10-K]

(10.90) Termination and Release of Trademark Security Agreement dated May 31, 2002 between Fleet Capital Corporation and IGEN, Inc. [Incorporated by reference to Exhibit 10.90 to the 2002 Form 10-K]

(10.91) Termination and Release of Patent Security Agreement dated May 31, 2002 between Fleet Capital Corporation and IGI, Inc. [Incorporated by reference to Exhibit 10.91 to the 2002 Form 10-K]

(10.92) Termination and Release of Patent Security Agreement dated May 31, 2002 between Fleet Capital Corporation and IGEN, Inc. [Incorporated by reference to Exhibit 10.92 to the 2002 Form 10-K]

(10.93) Manufacturing and Supply Agreement dated May 31, 2002 between IGI, Inc. and IGEN, Inc. (collectively Suppliers) and Vetoquinol, USA, Inc. (Purchaser). [Incorporated by reference to Exhibit 10.93 to the 2002 Form 10-K]

(10.94) Technological Rights Agreement dated May 31, 2002 between IGI, Inc. and IGEN, Inc. (collectively Sellers) and Vetoquinol, USA, Inc. (Purchaser). [Incorporated by reference to Exhibit 10.94 to the 2002 Form 10-K]

(10.95) Supplemental Agreement dated May 31, 2002 between IGI, Inc. (Seller) and Vetoquinol, USA, Inc. (Buyer). [Incorporated by reference to Exhibit 10.95 to the 2002 Form 10-K]

(10.96) Discharge of Mortgage dated May 29, 2002 by Fleet Capital Corporation. [Incorporated by reference to Exhibit 10.96 to the 2002 Form 10-K]

(10.97) Partial Release of Mortgage dated May 31, 2002 by American Capital Strategies, Ltd. for real property designated on the municipal tax map of the Borough of Buena as Lot 1, Block 205. [Incorporated by reference to Exhibit 10.97 to the 2002 Form 10-K]

(10.98) Amendment dated March 19, 2002, to License Agreement by and among Ethicon, Inc. and IGI, Inc., IGEN, Inc. and Immunogenetics, Inc. [Incorporated by reference to Exhibit 10.98 to the 2002 Form 10-K]

(10.99) Product Development Agreement dated November 10, 2003, between Pure Energy Corporation d/b/a/ Pure Energy of America, Inc. and IGI, Inc. [Incorporated by reference to Exhibit 10.99 on the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, File No. 001-08568, filed April 14, 2004 ("the 2003 Form 10-K).]

(10.100) Severance Agreement dated effective as of August 15, 2003, between John F. Ambrose and IGI, Inc. [Incorporated by reference to Exhibit 10.100 to the 2003 Form 10-K]

(10.101) Employment Agreement dated September 26, 2003, between Michael F. Holick, MD, PhD and IGI, Inc. [Incorporated by reference to Exhibit 10.101 to the 2003 Form 10-K]

(10.102) Severance Agreement dated effective as of January 9, 2004, between Garry Hardwick and IGI, Inc. [Incorporated by reference to Exhibit 10.102 to the 2003 Form 10-K]

(10.103) License Agreement effective December 24, 2003, by and among Michael F. Holick, MD, PhD, A&D Bioscience, Inc. and IGI, Inc. [Incorporated by reference to Exhibit 10.103 to the 2003 Form 10-K]

(10.104) License Agreement dated February 9, 2004, between Universal Chemical Technologies, Inc. and IGI, Inc. [Incorporated by reference to Exhibit 10.104 to the 2003 Form 10-K]

(10.105) Contract for Sale of Real Estate dated October 22, 2003, between CPB, Inc. ("Buyer") and IGI, Inc. ("Seller").[Incorporated by reference to Exhibit 10.105 to the 2003 Form 10-K]

(10.106) Cancellation of Mortgage and Security Agreement and Fixture Filing dated February 10, 2004 by the New Jersey Economic Development Authority for real property real property and premises situated, lying and being known as 701 Harding Highway, Buena, Atlantic Country, New Jersey, designated on the Municipal Tax Map of the Borough of Buena as Block 205, Lot 1. [Incorporated by reference to Exhibit 10.106 to the 2003 Form 10-K]

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(10.107) Agreement for Development Services dated March 27, 2003, between Chattem, Inc. and IGI, Inc. [Incorporated by reference to Exhibit 10.107 to the 2003 Form 10-K]

(10.108) Material Transfer Agreement dated December 1, 2003, between The Procter & Gamble Company and IGI, Inc. [Incorporated by reference to Exhibit 10.108 to the 2003 Form 10-K]

(10.109) Sublicense Agreement between IGI, Inc. and Tarpan Therapeutics, Inc. dated April 19, 2004 [Incorporated by reference to Exhibit 10.109 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed May 14, 2004]

(10.110) Severance agreement between IGI, Inc. and Domenic N. Golato, Chief Financial Officer dated June 30, 2004. [Incorporated by reference to Exhibit 10.110 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed August 13, 2004.]

(10.111) Sublicense Agreement between IGI, Inc. and University of Massachusetts dated July 27, 2004 [Incorporated by reference to Exhibit 10.111 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed August 13, 2004.]

(10.112) Amendment of the supply and license agreement between IGI, Inc.

	and Estee Lauder, Inc. [Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed November 24, 2004.]
(21)	List of Subsidiaries. [Incorporated by reference to Exhibit 21 to the 1999 Form 10-K.]
*(23.1)	Consent of KPMG LLP.
*(23.2)	Consent of Amper, Politziner & Mattia P.C.
*(31.1)	Certification of the Chairman and Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*(31.2)	Certification of the Vice President of Finance Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*(32.1)	Certification of the Chairman and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*(32.2)	Certification of the Vice President of Finance Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.