

IGI INC
Form DEF 14A
May 01, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to § 240.14a-12.

IGI, INC.

(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

IGI, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 24, 2006

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of IGI, Inc., a Delaware corporation (the "Company"), will be held on Wednesday, May 24, 2006 at 10:00 a.m. at The Embassy Suites, 4350 PGA Boulevard, Palm Beach, Florida 33410 (the "Meeting"), for the purpose of considering and voting upon the following matters:

1. To elect four (4) directors to serve until the next Annual Meeting of Stockholders.
2. To approve the adoption of an amendment to increase the number of shares by 200,000 as authorized and available under the Company's 1999 Director Stock Option Plan.
3. To approve the adoption of an amendment to increase the number of shares by 500,000 as authorized and available under the Company's 1999 Stock Incentive Plan, and to ensure compliance with Section 409A of the Internal Revenue Code.
4. To approve the adoption of an amendment to increase the number of shares by 200,000 as authorized and available under the Company's 1998 Directors Stock Plan.
5. To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has no knowledge of any other business to be transacted at the Meeting.

The Board of Directors has fixed the close of business on April 5, 2006 as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting and at any adjournments thereof.

A copy of the Company's Annual Report to Stockholders for the year ended December 31, 2005, which contains financial statements and other information of interest to stockholders, accompanies this Notice and the enclosed Proxy Statement.

By Order of the Board of Directors,

Frank Gerardi

CEO & Chairman

April 28, 2006

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE. NO POSTAGE NEEDS TO BE AFFIXED IF THE PROXY IS MAILED IN THE UNITED STATES.

IGI, INC.

105 Lincoln Avenue

Buena, New Jersey 08310

PROXY STATEMENT

For Annual Meeting of Stockholders

To Be Held May 24, 2006

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of IGI, Inc. (the "Company") for use at the Annual Meeting of Stockholders to be held on Wednesday, May 24, 2006 at 10 a.m. at The Embassy Suites, 4350 PGA Boulevard, Palm Beach, Florida 33410, and at any adjournments thereof (the "Meeting").

All proxies will be voted in accordance with the instructions of the stockholder. If no choice is specified, the proxies will be voted in favor of the proposals set forth in the accompanying Notice of Meeting. Any proxy may be revoked by a stockholder at any time before its exercise by delivery of a written revocation to the Secretary of the Company at 105 Lincoln Avenue, Buena, New Jersey 08310. Attendance at the Meeting will not itself be deemed to revoke a Proxy unless the stockholder gives affirmative notice at the Meeting that the stockholder intends to revoke the Proxy and vote in person.

Only the record holders of shares of common stock, \$.01 par value per share, of the Company (the "Common Stock") at the close of business on April 5, 2006 may vote at the Meeting. Each share entitles the record holder to one vote on each of the matters to be voted upon at the Meeting. On April 5, 2006, there were 12,744,112 shares of Common Stock issued and outstanding.

The Notice of Meeting, Proxy Statement, the enclosed Proxy and the Company's Annual Report for the year ended December 31, 2005 are being mailed to stockholders on or about May 2, 2006.

Beneficial Ownership of Common Stock

The following table sets forth information as of April 5, 2006 with respect to the beneficial ownership of shares of Common Stock by (i) each person known to the Company to own beneficially more than 5% of the outstanding shares of Common Stock, (ii) the directors of the Company, (iii) the Chief Executive Officer and the executive officers of the Company listed in the Summary Compensation Table below (collectively, the Named Executive Officers), and (iv) the directors and executive officers of the Company as a group. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class (1)
5% Stockholders		
Stephen J. Morris IGI Director 66 Navesink Avenue Rumson, NJ 07760	2,855,595(1)	22.2%
Frank Gerardi IGI CEO & Chairman c/o Uninvest Mgt. Inc. EPSP 149 West Village Way Jupiter, FL 33458	1,602,261(2)	12.2%
Edward B. Hager, M.D. Pinnacle Mountain Farms Lyndeboro, NH 03082	1,586,631(3)	12.3%
Jane E. Hager Pinnacle Mountain Farms Lyndeboro, NH 03082	1,584,644(4)	12.3%
Other Directors and Executive Officers Named In Summary Compensation Table		
Terrence O. Donnell	337,596(5)	2.6%
Nadya Lawrence	264,178(6)	2.0%
Donald W. Joseph	136,169(7)	1.1%
Rajiv Mathur	15,000(8)	0.1%

All Executive Officers and Directors, As a Group

All executive officers and directors, as a group (7 Persons) 5,278,504(9) 38.3%
 Percentage of beneficial ownership for each person listed is based on 12,744,112 shares of Common Stock issued and outstanding as of April 5, 2006, and includes the shares of Common Stock underlying options, or other rights, held by such persons that are exercisable within 60 days after April 5, 2006.

- (1) Includes 816,300 shares which Mr. Morris owns jointly with his wife and 200 shares owned directly by his wife. Also includes 154,460 shares, which are held in an account on behalf of Mr. Morris children, over which Mr. Morris has voting and investment control, 42,000 shares held in a building fund on behalf of St. George Greek Orthodox Church of Asbury Park, New Jersey, over which Mr. Morris has voting and investment control. Includes 117,016 shares which Mr. Morris may acquire pursuant to stock options exercisable within 60 days after April 5, 2006 and 26,666 shares which Mr. Morris may acquire pursuant to warrants exercisable within 60 days after April 5, 2006.
- (2) Mr. Gerardi is the Chief Executive Officer and Chairman of the Board of Directors of IGI, Inc. Includes 1,142,833 shares which are held by the Uninvest Management, Inc. Employee Profit Sharing Plan (Uninvest EPSP) for the benefit of Mr. Gerardi and his wife as fully vested participants thereunder, over which Mr. Gerardi has voting and investment control as the Trustee of the Uninvest EPSP. Includes 47,300 shares

- which are held by Univest Partners, L.P., Ltd., over which Mr. Gerardi has voting and investment control as the sole limited partner and sole shareholder of the corporate general partner, Univest Management, Inc. Includes 342,016 shares which may be acquired by Mr. Gerardi pursuant to stock options exercisable within 60 days after April 5, 2006 and 26,666 shares which Mr. Gerardi may acquire pursuant to warrants exercisable within 60 days after April 5, 2006.
- (3) Includes 150,000 shares which Dr. Hager may acquire pursuant to stock options exercisable within 60 days after April 5, 2006. Includes 773,148 shares and warrants to purchase 26,666 shares exercisable within 60 days after April 5, 2006 beneficially owned by Dr. and Mrs. Hager, who, as co-trustees of the Hager Family Trust, share voting and investment power. Includes 30,000 shares held by the Jane E. Hager Trust of 1990, of which Dr. Hager is a beneficiary or trustee. The information with respect to Dr. Hager is based on filings by the Hagers, transactions by the Hagers with the Company and the information with respect to the Jane E. Hager Trust of 1990 is based on information provided by Jane Hager.
 - (4) Includes 95,000 shares which Mrs. Hager may acquire pursuant to stock options exercisable within 60 days after April 5, 2006. Includes 773,148 shares and warrants to purchase 26,666 shares exercisable within 60 days after April 5, 2006, beneficially owned by Dr. and Mrs. Hager, who, as co-trustees of the Hager Family Trust, share voting and investment power. Includes 30,000 shares held by the Jane E. Hager Trust of 1990, of which Mrs. Hager is trustee or beneficiary. The information with respect to Mrs. Hager is based on filings by the Hagers, transactions by the Hagers with the Company and the information with respect to the Jane E. Hager Trust of 1990 is based on information provided by Jane Hager.
 - (5) Includes 170,000 shares which may be acquired pursuant to stock options exercisable within 60 days after April 5, 2006.
 - (6) Includes 255,250 shares which may be acquired pursuant to stock options exercisable within 60 days after April 5, 2006.
 - (7) Mr. Joseph is not standing for re-election. Includes 47,016 shares which may be acquired pursuant to stock options exercisable within 60 days after April 5, 2006.
 - (8) Includes 15,000 shares which may be acquired pursuant to stock options exercisable within 60 days after April 5, 2006.
 - (9) Includes 1,064,630 shares which may be acquired pursuant to stock options and warrants exercisable within 60 days after April 5, 2006.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company's directors, executive officers and holders of more than 10% of the Company's Common Stock (Reporting Persons) to file with the SEC and the American Stock Exchange initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. SEC regulations also require such persons to furnish the Company with copies of all such reports. Based solely on its review of copies of reports filed by Reporting Persons furnished to the Company, the Company believes that, except as set forth below, during 2005 its officers, directors and holders of more than 10% of the Company's Common Stock complied with all Section 16(a) filing requirements. During 2005, Frank Gerardi filed two late Form 4s reporting four late transactions. Terrence O Donnell filed one late Form 4 reporting a total of two transactions. Stephen Morris filed one late Form 4 reporting a total of two transactions. Donald Joseph filed one late Form 4 reporting two transactions. Nadya Lawrence filed a Form 5 in 2006 reporting holdings that would have otherwise been reported on a Form 3 in 2001 and reporting late seven transactions occurring between May 2001 to December 2005 and Ms. Lawrence filed a late Form 4 in 2006 reporting 3 transactions occurring in 2006. Rajiv Mathur filed a late Form 3 in 2005 reporting no holdings and a Form 5 in 2006 reporting late one transaction occurring in 2005. Carlene Lloyd filed a Form 5 in 2006 reporting holdings that would otherwise have been reported on a Form 3 in 2004, and reported late two transactions occurring in December 2004 and December 2005. Jane Hager, a 10% beneficial owner is in the process of filing a Form 5 in 2006 reporting late the purchase of stock and warrants in December, 2005 with respect to the acquisition by the Hager Family Trust of securities of the Company and also reporting late the acquisition of stock by the Jane E. Hager Trust of 1990 through the exercise of options in 2005. Edward Hager, a 10% beneficial owner is in the process of filing a Form 5 in 2006 reporting

late the purchase of stock and warrants in December 2005 with respect to the acquisition by the Hager Family Trust of securities of the Company and also reporting late the acquisition of stock by the Jane E. Hager Trust of 1990 through the exercise of options.

Votes Required

The holders of a majority of the shares of Common Stock outstanding shall constitute a quorum for the transaction of business at the Meeting. Shares of Common Stock present in person or represented by proxy (including shares which abstain or do not vote with respect to one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether a quorum exists at the Meeting.

Election of Directors. The affirmative vote of a plurality of the votes cast at the meeting is required for the election of Directors. A properly executed proxy marked "Withhold Authority" with respect to the election of one or more Directors will not be voted with respect to the Director or Directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Other Items. For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval.

Abstentions with respect to Proposals 2, 3 and 4 (amending various equity incentive plans) are treated as shares present or represented and voting, so abstaining has the same effect as a negative vote. Broker non-votes (shares held by brokers that do not have discretionary authority to vote on the matter and have not received voting instructions from their clients) on Proposals 2, 3 and 4 are not counted or deemed to be present or represented for the purpose of determining whether stockholders have approved that proposal.

Shareholders may not exercise appraisal rights in connection with any proposals being considered at the meeting.

PROPOSAL 1 ELECTION OF DIRECTORS**Nominees for Election as Directors**

The persons named as proxies in the accompanying Proxy intend (unless authority to vote therefore is specifically withheld) to vote for the election of the persons named below as directors to hold office until the next Annual Meeting of Stockholders and until their respective successors are elected and qualified. Each nominee has consented to being named in this Proxy Statement and to serve if elected. If any of the nominees becomes unavailable to serve as a director, the persons named as proxies in the accompanying Proxy may vote the Proxy for substitute nominees. The Board of Directors has no reason to believe that any of the nominees will be unable to serve if elected. The table below sets forth certain information with respect to the nominees.

Board Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES LISTED BELOW.

Name	Age	Director Since	Principal Occupation, Other Business	Experience During Past Five Years and Other Directorships
Terrence O Donnell	62	1993		Executive Vice President and General Counsel, Textron Inc., a producer of aircraft, automotive products and industrial products, since March 2000; Member of the Law Firm of Williams & Connolly, Washington, D.C., since April 1991 and from March 1977 to October 1989; General Counsel of Department of Defense from October 1989 to March 1991; Special Assistant to President Ford from August 1974 to January 1977; Deputy Special Assistant to President Nixon from May 1972 to August 1974; Director of ePlus, Inc. (formerly MLC Holdings), a provider of enterprise cost management software
Stephen J. Morris	73	1999		Chairman of Pure Energy Corporation, a developer of cleaner burning motor fuels and production technologies to produce bio-chemicals, since September 2003; Co-founder and General Manager of John Morris Sons, Inc., a hotel and restaurant enterprise, which Mr. Morris owned and managed from July 1958 to December 1998; Co-founder and Advisor of International Scientific Communications, a scientific publishing company, since 1969
Frank Gerardi	61	2002		Chief Executive Officer of IGI, Inc. since September 2003; President of Univest Management, Inc., a management consulting company, since 1986; member of the New York Stock Exchange from 1969 to 1986
Rajiv Mathur	51	2005		Vice President Skin Care, Cardinal Health Topical Technologies, a pharmaceutical distribution and marketing company, since 2001; head of the IGI, Inc.'s Research and Development team from 1992 to 2001. Mr. Mathur holds an MBA and a Bachelor of Science, Pharmacy

For information relating to shares of the Company owned by each of the directors, see Beneficial Ownership of Common Stock.

Executive Officers

In addition to Frank Gerardi, the following people serve as executive officers of the Company:

Name	Title
Nadya Lawrence	Vice President of Operations
Carlene Lloyd	Vice President of Finance

Nadya Lawrence (37) has served as the Company's Vice President of Operations since 2001. Prior to that, Ms. Lawrence served as the Company's R&D Technical Director and R&D Manager from 1995 to 2001.

Carlene Lloyd (33) has served as the Company's Vice President of Finance since July 2004. Prior to that, Ms. Lloyd served as the Company's Controller and Senior Accountant from 1998 to 2004.

Committees of the Board

The Board of Directors has an Executive Committee, an Audit Committee, a Nominating and Corporate Governance Committee, and an Organization and Compensation Committee. The present composition of the committees of the Board of Directors are set forth below. Membership of the committees may change at the time of the Meeting due to the election of new directors. The Board of Directors has determined that each member (*i.e.*, Donald Joseph, Rajiv Mathur and Terrence O'Donnell) of each committee, other than the Executive Committee, satisfy the independence standards applicable and established by the American Stock Exchange (AMEX) and the Securities and Exchange Commission (SEC) and that each member is free of relationships that would interfere with the individual exercise of independent judgment. Mr. Joseph is not standing for re-election at the Meeting and as a result will not be a director of the Company or a member of the aforementioned committees of the Company following the Meeting.

Executive Committee. The Executive Committee has, during times between Board meetings, all the authority of the Board in the management of the Company's business, except that the Executive Committee has no authority for any matters as to which the Board has specifically directed otherwise and for certain matters set forth under law and in the By-Laws. In practice, the Executive Committee usually acts only on matters specifically delegated to it by the Board and on matters of a more routine nature, and matters to be acted upon must be approved by the independent member of the Committee.

The members of the Executive Committee are Frank Gerardi (Chair), Stephen Morris and Donald Joseph. During the Company's fiscal year 2005, the Executive Committee did not meet. Mr. Joseph is not standing for re-election at the Meeting and as a result will not be a director of the Company or a member of the Executive Committee of the Company following the Meeting.

Organization and Compensation Committee. The Board of Directors has adopted a charter governing the duties and responsibilities of the Organization and Compensation Committee. Pursuant to the charter, the purpose of the Committee shall be to: (i) recommend to the Board of Directors compensation arrangements for the Chief Executive Officer and other executive officers and review their responsibilities and performance and plans for their succession; and (ii) approve compensation arrangements for and changes in other corporate officers. In furtherance of this purpose, the Committee shall have the following goals and responsibilities:

Review with appropriate representatives of IGI management: IGI's organization structure and, in particular, the responsibilities and performance of executive officers and from time to time senior operations executives and the plans for their succession; and report at least annually thereon to the Board of Directors.

Consider appropriate competitive data and recommend to the Board compensation and fringe benefits (except pension generally applicable to salaried employees) for executive officers.

Consider appropriate competitive data and any recommendation made by the Chief Executive Officer and approve: (i) executive salary structure; and (ii) compensation and fringe benefits (except pensions generally applicable to salaried employees) for other corporate officers.

In connection with IGI's annual incentive compensation programs, each year: (i) review and approve the Chief Executive Officer's goals and his/her performance against those goals; (ii) approve annual incentive compensation targets; (iii) approve an annual incentive compensation award for the Chief Executive Officer, other executive officers and other corporate officers; (iv) review the annual performance objectives of the other executive officers; and (v) review annual incentive compensation awards for senior operations executives.

Review with appropriate officers of IGI: (i) changes in corporate officers; (ii) policy on matters pertaining to compensation; (iii) special benefits and perquisites; (iv) each year on a retrospective basis, compensation changes made in the prior year to determine whether policies established by the Committee have been executed as intended and are achieving the intended result; (v) each year on a retrospective basis, corporate results against corporate goals; and (vi) any other matter of concern to the Committee relating to overall corporate organization or compensation policy for IGI.

The members of the Organization and Compensation Committee are Rajiv Mathur (since September, 2005), Donald Joseph and Terrence O'Donnell (Chair). During the Company's fiscal year 2005, the Organization and Compensation Committee met two times. Mr. Joseph is not standing for re-election at the Meeting and as a result will not be a director of the Company or a member of the Organization and Compensation Committee of the Company following the Meeting.

Audit Committee. The Audit Committee has been established for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the Company's annual financial statements, as well as its internal controls and audit functions. The Audit Committee operates under a written charter adopted by the Board of Directors. The charter requires that the Audit Committee consist solely of no fewer than three independent directors. For part of 2005, the Audit Committee was comprised of only two independent directors: Donald Joseph and Terrence O'Donnell. This is due to the fact that there were only four directors in total, two of whom were independent. With the addition of Mr. Mathur as a director, there are now three independent directors, each of whom is a member of the Audit Committee. Mr. Joseph is not standing for re-election at the Meeting and as a result will not be a director of the Company or a member of the Audit Committee of the Company following the Meeting, and as a result the Audit Committee will once again consist of two members.

As described more fully in its Audit Committee Charter, the purpose of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities to stockholders concerning the Company's accounting and reporting practices, and shall facilitate open communication between the Audit Committee, the Board of Directors, outside auditor and management. The Audit Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the outside auditor, in accordance with its business judgment. In exercising its business judgment, the Audit Committee shall rely on the information and advice provided by the Company's management and/or its outside auditor. Pursuant to the charter, the function of the Audit Committee includes:

to provide the opportunity for direct communication between the Board of Directors and the Company's external auditors;

¹ AMEX Rule 121(c), provides that Small Business Issuers (as defined in SEC Regulation S-B) are only required to maintain a Board of Directors comprised of at least 50% of independent directors and an Audit Committee of at least two members, comprised solely of independent directors. IGI qualifies as a Small Business Issuer (*i.e.*, the Company is a U.S. issuer with revenues less than \$25,000,000 and has a public float less than \$25,000,000).

to monitor the design and maintenance of the Company's system of internal accounting controls;

to select, evaluate and, if necessary, replace the external auditors;

to review the results of internal and external audits as to the reliability and integrity of the financial and operating information systems established to monitor compliance with the Company's policies, plans and procedures and with laws and regulations; and

to review the relationship between the Company and the external auditors to ascertain the independence of the external auditors.

The members of the Audit Committee are Terrence O'Donnell (Chair), Donald Joseph and Rajiv Mathur (since September, 2005). The Board of Directors has determined that Terrence O'Donnell is an audit committee financial expert as defined in the SEC rules. The Audit Committee met six times during the Company's fiscal year 2005. A report of the Audit Committee is set forth herein. Mr. Joseph will not be a member of the Audit Committee following the Meeting, as he is not standing for re-election.

Nominating and Corporate Governance Committee. The Board of Directors has adopted a charter governing the duties and responsibilities of the Nominating and Corporate Governance Committee (Nominating Committee). Pursuant to the charter, the purpose of the Nominating Committee is to identify individuals qualified to become board members, and to recommend that the board select the director nominees for the next annual meeting of stockholders, to develop and recommend to the board a set of corporate governance principles applicable to the Company, and to make recommendations on compensation of the Board of Directors. In furtherance of such purpose, the Nominating Committee shall have the following goals and responsibilities:

To identify, review and recommend to the Board of Directors qualified candidates for director nominees to fill any existing or anticipated vacancy on the Board of Directors;

To identify, review and recommend to the Board of Directors, prior to each year's annual meeting of stockholders, successors to the class of Directors whose term shall then expire (including any Director in such class proposing to stand for election to another term), and additional director nominees, if any, for election to the Board of Directors on whose behalf the Board of Directors will solicit proxies;

To recommend to the Board of Directors the size of the Board of Directors;

To review and make recommendations to the Board of Directors with respect to suggestions for director nominees made by stockholders to the Board of Directors or to management in accordance with the By-Laws of the Company;

To review annually the Board of Directors' overall performance and oversee the annual performance evaluation for each of its committees;

To recommend to the Board of Directors whether resignations tendered by members who have had a substantial change in their job responsibilities should be accepted;

To annually review the Board of Directors committee structure, charters and membership and recommend to the Board of Directors changes, if any; and to, in consultation with the Chairman of the Board, recommend to the Board of Directors the assignment of members of the Board of Directors to the various committees and appointment, rotation or removal of committee chairs;

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To review and make recommendations to the Board of Directors with respect to changes in Directors' compensation and benefits; and

To develop and recommend to the Board of Directors a set of corporate governance guidelines and to review the guidelines at least annually and recommend changes as necessary.

The Nominating Committee shall have sole authority to retain and terminate any consulting firm to assist it in carrying out its duties and responsibilities, as the committee may deem appropriate in its sole discretion. The Nominating Committee shall have sole authority to approve related fees and other retention terms.

The Nominating Committee's process for recruiting and selecting nominees is for Committee members to attempt to identify individuals who are thought to have the business background and experience, industry specific knowledge and general reputation and expertise that would allow them to contribute as effective directors to the Company's governance, and who are willing to serve as directors of a public company. To date, the Company has not engaged any third party to assist in identifying or evaluating potential nominees. After a possible candidate is identified, the individual meets with various members of the Committee to ascertain his or her interest and willingness to serve, and Committee members discuss amongst themselves the individual's potential to be an effective Board member. If the discussions and evaluation are positive, the individual is invited to serve on the Board.

The entire Board of Directors, including the Nominating Committee, approves the nomination of the candidates reflected in Proposal 1. The Nominating Committee will consider stockholder recommendations for candidates to serve on the Board of Directors. The name of any recommended candidate for director, together with pertinent biographical information, a document indicating the candidate's willingness to serve if elected, and evidence of the nominating stockholder's ownership of Company stock should be sent to the Nominating Committee c/o IGI, Inc., Corporate Secretary, 105 Lincoln Avenue, Buena, New Jersey 08310. To date, the Nominating Committee has not adopted a specific formal policy with respect to the consideration of director candidates recommended by stockholders and to date no director candidates have been recommended by stockholders. If a director candidate were to be recommended by a stockholder, the Nominating Committee expects to evaluate such candidate in the same manner it evaluates director candidates identified by the Committee.

The members of the Nominating Committee are Donald Joseph (Chair), Rajiv Mathur and Terrence O. Donnell. The Nominating Committee met one time during the Company's fiscal year 2005. Donald Joseph is not standing for re-election at the meeting and will no longer be a member of the Nominating Committee following the meeting.

Meeting Attendance

During the Company's fiscal year 2005, the Board of Directors met 8 times. Each of the current directors attended at least 75% of the meetings of the Board of Directors during the period in which he was a director and the committees on which he served, during the period in which he served.

Stockholder Communications with Directors and Director Attendance at Annual Meetings

Stockholders who wish to send communications to the Company's Board of Directors may do so by sending them in care of the Secretary of the Company at the address which appears on the first page of this proxy statement. Such communications may be addressed either to specified individual directors or the entire Board. The Secretary will have the discretion to screen and not forward to directors communications which the Secretary determines in his or her discretion are communications unrelated to the business or governance of the Company and its subsidiaries, commercial solicitations, offensive, obscene, or otherwise inappropriate. The Secretary will, however, compile all stockholder communications which are not forwarded and such communications will be available to any director.

It is the policy of our board of directors that directors are strongly encouraged to attend all annual stockholder meetings two of the four directors serving at the time, attended the 2005 annual meeting of stockholders.

Director Compensation and Stock Options

Director Options. In September 1999, the Board of Directors adopted the 1999 Director Stock Option Plan (the "1999 Plan"). Under the 1999 Plan, on January 2 of each year, beginning with January 2000 (i) each non-employee director is granted a stock option for 15,000 shares, and (ii) each of the Chairmen of the Audit Committee and the Organization and Compensation Committee is granted additional stock options for 15,000 and 10,000 shares, respectively. Additionally, under the 1999 Plan, each newly elected director will receive a stock option grant of 15,000 shares at the time of his/her election. All of such options will be granted at an

exercise price equal to the closing price of the Common Stock on the American Stock Exchange on the date of grant. All options granted under the 1999 Plan become 100% vested twelve months after the date of grant. For January, 2006, the Board of Directors temporarily waived their rights to receive the aforesaid options, but reserved the right to have such options issued later in the year. On December 9, 2005, the Compensation Committee recommended to our Board of Directors and the Board of Directors approved accelerating the vesting of all unvested stock options outstanding under our employee incentive stock compensation plans and our non-employee director stock compensation plans effective as of December 9, 2005. The Board accelerated the vesting of these options to eliminate the Company's recognition of compensation expense associated with the affected options under Statement of Financial Accounting Standards No. 123R, Share-Based Payment, which will apply to the Company beginning in the first quarter of 2006.

During 2005, the following number of options were granted under the 1999 Plan on the date indicated to each of the following directors listed below:

Name of Director	Option Grant Date	Number of Options Granted
Frank Gerardi	(1)	(1)
Donald W. Joseph (2)	1/3/05	15,000
Stephen J. Morris	1/3/05	25,000
Terrence O. Donnell	1/3/05	30,000
Rajiv Mathur	9/12/05	15,000

(1) Mr. Gerardi received options to purchase 150,000 shares in his capacity as CEO and none in his capacity as director.

(2) Mr. Joseph is not standing for re-election.

Director Fees. The Board of Directors adopted the 1998 Directors Stock Plan (the 1998 Plan) in October 1998 to provide each outside director with the right to receive shares of the Company's Common Stock as director compensation in lieu of cash payments of director fees, thereby encouraging ownership in the Company by the directors. Each non-employee director receives \$2,000 in value of Common Stock for each meeting of the Board he or she attends in person, \$1,000 in value of Common Stock for each telephonic meeting of the Board attended, \$500 in value of Common Stock for each committee meeting attended which is held on the same day as a Board meeting, \$1,000 in value of Common Stock for each committee meeting attended which is not held on the same day as the Board meeting, and up to \$5,000 in value of Common Stock annually for the Chairmen of certain of the Board committees. The fees are payable quarterly and the number of shares of Common Stock issued to each director is determined by dividing the fees payable for the quarter by the closing price of the Company's Common Stock on the American Stock Exchange on the last business day of the applicable quarter.

At a Board meeting held on July 19, 2002, the Directors unanimously expressed their willingness to accept a significant reduction in the amount of the share grants to be received under the 1998 Plan as compensation for service on the Board in an effort to provide the Company with their personal support, commitment and assistance at a pivotal time in its growth and development. In furtherance thereof during the July 19, 2002 meeting, the Members of the Board collectively agreed to a 50% reduction in the amount of the share grant fee compensation payable to each Director under the 1998 Plan for the third and fourth quarters of 2002. Moreover, the Board continued to honor this commitment for the entire year of 2005 in support of the future success of the Company. Moreover, at the meeting of the Board of Directors on July 23, 2003, a resolution was unanimously adopted providing that unless and until only in the event that the Company returns to profitability shall the Directors compensation be prospectively restored to the full amounts provided by the 1998 Plan as in effect prior to the Directors' voluntary 50% reduction program in effect since July 19, 2002. In addition to the foregoing, Mr. Mathur receives \$36,000 annually for service as director. Because he first became a director in September 2005, in 2005 he received \$9,000 for service as director.

Certain Relationships and Related Transactions

In February 2004, the Company signed a license agreement with Universal Chemical Technologies, Inc. (UCT) to utilize its patented technology for an electroless nickel boride metal finishing process. This was a new venture for the Company and the Company had capital expenditures of approximately \$913,000, of which \$308,000 related to building improvements and \$605,000 related to purchases of equipment, spread over 2004 and 2005 (approximately \$131,000 in 2005) in order to set up the operations. The Company has an exclusive license within a 150 mile radius of its facility for commercial and military applications. In the start of the second quarter of 2005, the Company began production in our metal finishing division, utilizing the patented UltraCem technology. However, certain customers of the consumer products division informed us that they are not comfortable with the metal finishing division being housed in the same facility as our consumer products division. In light of this new information, the Company has decided to cease operations of the metal finishing division at our corporate manufacturing facility. We continue sample testing for customers at the UCT facility in Florida. Once purchase orders are received for this division, management will decide whether to move the metal finishing division to another facility or sell the division to a potential buyer. Due to the uncertain future of the metal plating division, management has recorded an impairment charge of \$175,000 in the fourth quarter of 2005 on the equipment for the plating line. Management feels there is a high probability that we will receive an acceptable offer from a third party to purchase and move the equipment to their facility before we are able to secure a contract and/or purchase orders for this division. Management has evaluated a few informal offers and feels that the impairment charge taken will record the equipment at its fair market value. The Company still maintains the belief that 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. The Company has not budgeted for any additional expenditure for fiscal year 2006 in connection with the UCT license agreement.

On December 12, 2005, the Company issued a secured promissory note (the Note) in favor of Univest Management EPSP (Univest), c/o Frank Gerardi, Trustee, or its registered assigns (the Holder), in the principal amount of \$1,000,000. Mr. Gerardi is the Chairman and Chief Executive Officer of the Company and he is the trustee and controls Univest. The Note is payable on or before the earlier to occur of (i) the closing of the conveyance by the Company of its real property, identified as Lots 22.02 and 23 on the Tax Map of Buena Vista Township, Atlantic County, New Jersey (Lots 22.02 and 23) and (ii) July 31, 2006. The Note is secured by a mortgage covering Lots 22.02 and 23. It is anticipated that the sale/leaseback of Lots 22.02 and 23, pursuant to that certain Agreement for Purchase and Sale, dated November 18, 2005, will take place during the first half of 2006. On January 30, 2006, the Company entered into a letter agreement (the Letter Agreement) with Univest (the Holder). Pursuant to the Letter Agreement, the stated interest rate on the secured promissory note, dated December 12, 2005, in favor of the Holder, was revised from 30% per annum to 12% per annum as of February 1, 2006.

For 2005, Frank Gerardi (CEO and Chairman of the Board and 12.2% beneficial owner) and Stephen Morris (Director and 22.2% beneficial owner) each personally agreed to loan the Company up to \$500,000 each, if necessary, to fund any deficit of the Company through December 31, 2005. This loan offer has not been renewed for fiscal year 2006.

On December 15, 2005, the Company entered into agreements to sell four units (the Units) to accredited investors, pursuant to a Private Placement Memorandum dated November 11, 2005, for an aggregate purchase price of \$400,000. Each Unit consists of 133,333 shares of common stock of the Company, \$.01 par value per share (the Common Stock), and warrants to purchase 26,666 shares of the Common Stock (the Warrants). Stephen Morris a director purchased one unit, Univest, an entity controlled by Mr. Girardi purchased one unit and the Hager Family Trust of which Jane Hager and Edward Hager are co-trustees purchased one unit. Each of Frank Gerardi, Stephen Morris, and Jane Hager and Edward Hager may be deemed to own more than 10% of the Company's outstanding stock. The remaining unit was purchased by an outside investor. The Warrants are

exercisable for two years from the date of issuance at an exercise price of \$0.90 per share, subject to adjustment upon the occurrence of specific events, including stock dividends, stock splits, combinations or reclassifications of our common stock or distributions of cash or other assets. The Warrants do not entitle the holders to any voting or other rights as a stockholder until such Warrants are exercised and common stock is issued.

REPORT OF THE AUDIT COMMITTEE

The ultimate responsibility for good corporate governance rests with the Board of Directors, whose primary roles are oversight, counseling and direction to IGI's management in the best long-term interests of the corporation and its stockholders. The Board's Audit Committee (the Audit Committee) has been established for the purpose of overseeing the accounting and financial reporting processes of the Company and audit of the Company's annual financial statements. The Sarbanes-Oxley Act of 2002 added a number of provisions to federal law to strengthen the authority of, and increase the responsibility of, corporate audit committees. The Company is subject as well to related rules concerning audit committee structure, membership, authority and responsibility recently adopted by the American Stock Exchange (AMEX).

IGI's Audit Committee operates under a written charter adopted by the Board. The composition of the Audit Committee, the attributes of its members and its responsibilities, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. The Audit Committee reviews and assesses the adequacy of its charter on an annual basis.

The Audit Committee charter requires that the Audit Committee consist solely of no fewer than three independent directors. At the present time, the Audit Committee is comprised of Donald Joseph, Terrence O'Donnell and Rajiv Mathur. Prior to Mr. Mathur joining the Board and the Audit Committee in September, 2004, there were only four directors in total, two of whom are independent, and the Audit Committee consisted of those two directors. Because Mr. Joseph is not standing for re-election, following the meeting, there will be only two independent directors (until another is elected). AMEX Rule 121(c), however, provides that Small Business Issuers (as defined in SEC Regulation S-B) are only required to maintain a Board of Directors comprised of at least 50% of independent directors and an Audit Committee of at least two members, comprised solely of independent directors. IGI qualifies as a Small Business Issuer (*i.e.*, the Company is a U.S. issuer with revenues less than \$25,000,000 and has a public float less than \$25,000,000).

As described more fully in its charter, the purpose of the Audit Committee is to assist the Board in its general oversight of IGI's financial reporting, internal controls and audit functions. Management is responsible for the preparation, presentation and integrity of IGI's financial statements; accounting and financial reporting principles; internal controls; and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. The Company's independent auditing firm is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards. In accordance with the Sarbanes-Oxley Act, the Audit Committee has ultimate authority and responsibility to select, compensate, evaluate and, when appropriate, replace IGI's independent auditors.

The Audit Committee members are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management and the independent auditors, nor can the Audit Committee certify that the independent auditors are independent under applicable rules. The Audit Committee serves a board-level oversight role, in which it provides advice, counsel and direction to management and the auditors on the basis of the information it receives, discussions with management and the auditors, and the experience of the Audit Committee's members in business, financial and accounting matters. The Audit Committee has the authority to engage its own outside advisers, including experts in particular areas of accounting, as it determines appropriate, apart from counsel or advisers hired by management.

The Audit Committee has an annual agenda that includes reviewing IGI's financial statements, internal controls and audit matters. The Audit Committee meets each quarter with the Company's external auditors and management to review IGI's interim financial results before the publication of IGI's quarterly earnings press releases. Management's and independent auditors' presentations to and discussions with the Audit Committee cover various topics and events that may have significant financial impact and/or are the subject of discussions between management and the independent auditors. In addition, the Audit Committee generally oversees IGI's internal compliance programs. In accordance with law, the Audit Committee is responsible for establishing procedures for the receipt, retention and treatment of complaints received by IGI regarding accounting, internal

accounting controls or auditing matters, including the confidential, anonymous submission by IGI employees, received through established procedures, of concerns regarding questionable accounting or auditing matters.

Among other matters, the Audit Committee monitors the activities and performance of IGI's external auditors, including the audit scope, external audit fees, auditor independence matters and the extent to which the independent auditors may be retained to perform non-audit services. IGI's independent auditors provide the Audit Committee with the written disclosures required by Independence Standards Board Standard No. 1,

Independence Discussions with Audit Committees, and the Audit Committee discussed with the independent auditors and management that firm's independence.

Additionally, the Committee considered all audit services provided by the independent auditors and the fees and costs billed and expected to be billed by the independent auditors for those services. The Committee has discussed with management the procedures for selection of consultants and the related competitive bidding practices and fully considers whether those services provided by the independent auditors are compatible with maintaining auditor independence.

In accordance with existing Audit Committee policy and the more recent requirements of the Sarbanes-Oxley Act, all services to be provided by the Company's independent auditors are subject to pre-approval by the Audit Committee. This includes audit services, audit-related services, tax services and other services. The Sarbanes-Oxley Act prohibits an issuer from obtaining certain non-audit services from its auditing firm so as to avoid certain potential conflicts of interest. IGI has not in recent years obtained any of these services from its independent auditors, and IGI is able to obtain such services, if needed, from other service providers at competitive rates. See Relationship with Independent Accountants for more information regarding fees paid to the Company's independent auditors for services in fiscal years 2005 and 2004.

The Audit Committee has reviewed and discussed the consolidated financial statements for fiscal year 2005 with management and the independent auditors; management represented to the Audit Committee that IGI's consolidated financial statements were prepared in accordance with generally accepted accounting principles; and the independent auditors represented that their presentations included the matters required to be discussed with the independent auditors by Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees. This review included a discussion with management of the quality, not merely the acceptability, of IGI's accounting principles, the reasonableness of significant estimates and judgments, and the clarity of disclosure in IGI's financial statements. The Audit Committee has received the written disclosures and the letter from Amper, Politziner & Mattia, P.C. required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented, and the Audit Committee and the independent auditors have discussed the auditors' independence from the Company and its management. The Audit Committee has discussed with the Company's independent auditors, with and without management present, their evaluations of the Company's internal accounting control and the overall quality of the Company's financial reports. In reliance on these views and discussions, and the report of the independent auditors, the Audit Committee has recommended to the Board, and the Board has approved, the inclusion of the audited consolidated financial statements in IGI's Annual Report on Form 10-KSB for the year ended December 31, 2005 for filing with the SEC.

Audit Committee

Terrence O. Donnell (Chairman)

Donald Joseph

Rajiv Mathur

EXECUTIVE COMPENSATION

Report of the Organization and Compensation Committee

Overview and Philosophy

The Organization and Compensation Committee of the Board of Directors (the Compensation Committee), previous known as the Human Resources and Compensation Committee and prior thereto as the Compensation and Stock Option Committee, shall be comprised of no fewer than two members. All members of the Compensation Committee shall be independent directors and shall satisfy the independence standards established by the American Stock Exchange and the Securities and Exchange Commission. The members of the Compensation Committee shall be appointed by the Board of Directors upon recommendation of the Nominating and Corporate Governance Committee and may be removed by the Board of Directors in its discretion.

The purpose of the Committee shall be to: (i) recommend to the Board of Directors compensation arrangements for the Chief Executive Officer and other executive officers and review their responsibilities and performance and plans for their succession; and (ii) approve compensation arrangements for and changes in other corporate officers.

The objectives of the Company's executive compensation program are to:

Support the achievement of strategic goals and objectives of the Company.

Attract and retain key executives critical to the long-term success of the Company.

Align the executive officers' interests with the success of the Company.

Compensation Program

The Company's executive compensation program consists of three principal elements: base salary, annual cash incentive compensation and long-term incentive compensation in the form of stock options.

Base salary levels for the Company's executive officers are generally based on a review of compensation for competitive positions in the market, the executives' job skills and experience and judgments as to past and future contributions of the executives to the Company's success. The Committee seeks to set the annual base salaries of its executives at levels competitive with those paid to executives in those businesses in which the Company is engaged, namely, consumer products. It seeks, however, to provide its executives with opportunities for substantially higher compensation through annual incentive awards and stock options.

The Company has implemented a variable compensation plan for its top executives. The purpose of the plan is to directly link management compensation to Company performance. Present plans include expanding the application of the variable compensation plan to more upper level managers. Long-term incentives for executive officers and key managers are provided through stock options. The objectives of this program are to align executive and stockholder long-term interests by creating a strong and direct link between executive compensation and stockholder return, and to enable executives to develop and maintain a significant, long-term stock ownership position in the Company's Common Stock. Stock options are granted at an option price equal to the fair market value of the Company's Common Stock on the date of grant and will only have value if the Company's stock price increases. In selecting executives eligible to receive option grants and determining the amount of such grants, the Committee evaluates a variety of factors including (i) the job level of the executive, (ii) option grants awarded by competitors to executives at a comparable job level, and (iii) past, current and prospective service to the Company rendered, or to be rendered, by the executive.

Chief Executive Officer's 2005 Compensation

The factors considered by the Compensation Committee in determining the compensation of Mr. Gerardi, the Chief Executive Officer, in addition to survey data, include the Company's operating and financial

performance, as well as his leadership and establishment and implementation of strategic direction for the Company. During 2005, the Compensation Committee increased Mr. Gerardi's base compensation from \$120,000 to \$150,000 per year. The Committee authorized this increase because Mr. Gerardi's salary was and remains significantly below the market level for companies of comparable size. In addition, the Committee approved the entering into of a Severance and Change of Control Agreement for Mr. Gerardi. This type of agreement is less generous than those typically provided to other CEOs.

The Compensation Committee considers stock options to be an important component of the Chief Executive Officer's compensation as a way to reward performance and motivate leadership for long-term growth and profitability. In 2005, Mr. Gerardi was granted options to purchase 150,000 shares, with an exercise price equal to the fair market value at date of grant. This option was fully vested at grant date. In addition the vesting of options granted to Mr. Gerardi in 2004 was accelerated and the options vested on December 9, 2005.

Tax Considerations

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), generally disallows a tax deduction to public companies for compensation in excess of one million dollars paid to its chief executive officer and its other four highest compensated officers (collectively, the Named Executive Officers). Qualified performance-based compensation will not be subject to the deduction limit if certain requirements are met. While the Committee does not currently intend to qualify its annual cash incentive compensation as qualified performance-based compensation, it will continue to monitor the impact of Section 162(m) on the Company. Based on the compensation paid to the Named Executive Officers in 2005, it does not appear that the Section 162(m) limitation will have a significant impact on the Company in the near term.

Organization and Compensation Committee

Donald Joseph (Chairman)

Terrence O. Donnell

Rajiv Mathur

Compensation Committee Interlocks and Insider Participation

The Organization and Compensation Committee is comprised of Messrs. Joseph, O. Donnell and Mathur. Because Mr. Joseph is not standing for re-election, following the meeting, he will no longer be a member of such Committee. No member of the Organization and Compensation Committee was, during fiscal year 2005, an officer or employee of the Company or any of its subsidiaries, or was formerly an officer of the Company or any of its subsidiaries, except that Rajiv Mathur was an officer of the Company from February, 1999 to April, 2001. During fiscal year 2005, no executive officer of the Company served as a director or member of the Organization and Compensation Committee (or other board committee performing equivalent functions, or in the absence of such committee, the entire board of directors) of another entity, one of whose executive officers served as a member of the Organization and Compensation Committee, or as a director of the Company.

Employment Agreements

Gerardi Severance and Change of Control Agreement.

Frank Gerardi. In August 2005, the Company entered into an agreement with Mr. Gerardi, its Chief Executive Officer, whereby he will be entitled to a (i) \$150,000 lump sum and (ii) payment for accrued vacation within two weeks of termination of his employment by Company without Cause (as defined in the agreement) or if he terminates his employment for Good Reason (as defined in the agreement). In addition, the Company must provide Mr. Gerardi with health benefits for one year after such terminations.

