

IGI LABORATORIES, INC
Form 10-Q
August 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

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 Laboratories, Inc.

(Exact name of registrant as specified in its charter)

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Delaware

*(State or other Jurisdiction of
incorporation or organization)*

01-0355758

(I.R.S. Employer Identification No.)

105 Lincoln Avenue

Buena, New Jersey

(Address of Principal Executive Offices)

08310

(Zip Code)

(856) 697-1441

(Registrant's telephone number, including area code)

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 No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes No

The number of shares outstanding of the issuer's common stock is 43,251,415 shares as of August 2, 2013.

PART I
FINANCIAL INFORMATION

ITEM 1.**Financial Statements.**

IGI LABORATORIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share information)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues:				
Product sales, net	\$ 3,706	\$ 1,861	\$ 7,174	\$ 3,371
Research and development income	109	564	268	872
Licensing, royalty and other income	5	12	62	26
Total revenues	3,820	2,437	7,504	4,269
Cost and expenses:				
Cost of sales	2,673	1,683	5,248	3,049
Selling, general and administrative expenses	706	615	1,386	1,273
Product development and research expenses	805	644	1,463	1,116
Total costs and expenses	4,184	2,942	8,097	5,438
Operating loss	(364)	(505)	(593)	(1,169)
Interest expense and other, net	(39)	(83)	(67)	(154)
Net loss	\$ (403)	\$ (588)	\$ (660)	\$ (1,323)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)

**Weighted Average of Common Stock
and**

Common Stock Equivalents Outstanding

Basic and diluted	43,206,016	39,522,868	43,070,335	39,511,745
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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

	June 30, 2013	December 31, 2012*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,313	\$ 2,536
Accounts receivable, net	2,602	1,577
Inventories	2,104	1,773
Prepaid expenses and other receivables	297	253
Total current assets	6,316	6,139
Property, plant and equipment, net	2,650	2,691
Product acquisition costs, net	1,426	-
Restricted cash, long term	54	54
License fee, net	250	300
Debt issuance costs, net	85	100
Other	155	143
Total assets	\$ 10,936	\$ 9,427
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,179	\$ 1,091
Accrued expenses	1,433	820
Deferred income, current	104	48
Capital lease obligation, current	13	17
Total current liabilities	2,729	1,976
Note payable, bank	2,000	1,000
Deferred income, long term	17	20
Capital lease obligation, long term	-	4
Total liabilities	4,746	3,000
Commitments and contingencies		
Stockholders equity:		

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Series A Convertible Preferred stock, liquidation preference - \$500,000 at	500	500
June 30, 2013 and December 31, 2012		
Series C Convertible Preferred stock, liquidation preference - \$1,802,671 at		
June 30, 2013 and \$1,764,240 at December 31, 2012	1,517	1,517
Common stock	452	446
Additional paid-in capital	47,826	47,409
Accumulated deficit	(44,105)	(43,445)
Total stockholders' equity	6,190	6,427
Total liabilities and stockholders' equity	\$ 10,936	\$ 9,427

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

* Derived from the audited December 31, 2012 financial statements

IGI LABORATORIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six months ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (660)	\$ (1,323)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation	190	172
Amortization of license fee	50	50
Stock-based compensation expense	112	164
Provision for write down of inventory	22	61
Amortization of debt issuance costs	15	81
Loss on abandonment of property	-	11
Changes in operating assets and liabilities:		
Accounts receivable	(1,025)	(371)
Inventories	(353)	(112)
Prepaid expenses and other assets	(56)	179
Accounts payable and accrued expenses	701	159
Deferred income	53	(2)
Net cash used in operating activities	(951)	(931)
Cash flows from investing activities:		
Capital expenditures	(149)	(336)
Product acquisition costs	(1,426)	-
Net cash used in investing activities	(1,575)	(336)
Cash flows from financing activities:		
Proceeds from note payable, bank	1,000	-
Principal payments on capital lease obligation	(8)	(22)
Proceeds from exercise of common stock options and warrants	364	26
Costs related to stock issuance	(53)	-
Net cash provided by financing activities	1,303	4
Net decrease in cash and cash equivalents	(1,223)	(1,263)

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Cash and cash equivalents at beginning of period	2,536	2,914
Cash and cash equivalents at end of period	\$ 1,313	\$ 1,651
Supplemental cash flow information:		
Cash payments for interest	\$ 55	\$ 64
Cash payment for taxes	\$ 8	\$ 9
Non cash investing and financing transactions:		
Equipment purchases financed through capital leases	\$ -	\$ 30

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

IGI LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the six months ended June 30, 2013

(in thousands, except share information)

	Series A		Series C Convertible		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2012 (Audited)	50	\$ 500	1,550	\$ 1,517	42,705,032	\$ 446	\$ 47,409	\$ (43,445)	\$ 6,427
Stock based compensation expense stock options							103		103
Stock based compensation expense restricted stock							9		9
Stock warrants exercised					427,713	5	231		236
Stock options exercised					118,670	1	127		128
Costs related to stock issuance							(53)		(53)
Net loss	-	-	-	-	-	-	-	(660)	(660)
Balance, June 30, 2013 (Unaudited)	50	\$ 500	1,550	\$ 1,517	43,251,415	\$ 452	\$ 47,826	\$ (44,105)	\$ 6,190

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

IGI LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The condensed consolidated balance sheet as of December 31, 2012 has been derived from those audited consolidated financial statements. Operating results for the three and sixth month period ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

1. Organization

IGI Laboratories, Inc. is a Delaware corporation formed in 1977. The Company's office, laboratories and manufacturing facilities are located at 105 Lincoln Avenue, Buena, New Jersey. The Company is a developer, manufacturer, and marketer of topical formulations. The Company's goal is to become a leader in the generic topical pharmaceutical market. In its own label, the Company sells generic topical pharmaceutical products that are bioequivalent to their brand name counterparts. The Company also provides development, formulation, and manufacturing services to the pharmaceutical, over-the-counter (OTC), and cosmetic markets. The Company's strategy is based on three initiatives:

- Manufacturing, developing, and marketing a portfolio of generic pharmaceutical products in its own label in topical dosage forms;
- Increasing the Company's current contract manufacturing and development business; and
- Creating unique opportunities through the acquisition of additional intellectual property, and the expansion of the use of the Company's existing intellectual property, including its licensed Novasome® technology.

In December, 2012, the Company completed implementation of its commercial infrastructure and launched its first generic topical pharmaceutical products under the IGI label. The Company is now actively marketing three IGI label products. The remainder of product sales are under contract manufacturing agreements. The Company has filed eleven Abbreviated New Drug Applications, or ANDAs, with the United States Food and Drug Administration, or FDA. As discussed in Note 10, on February 1, 2013, the Company acquired product rights to econozale nitrate cream 1%. The Company performs all of its product development and manufacturing at its 25,000 square foot facility in Buena, New Jersey.

2. Liquidity

The Company's principal sources of liquidity are cash and cash equivalents of approximately \$1,313,000 at June 30, 2013, the \$1,000,000 available under the \$3,000,000 credit facility detailed below and cash from operations. The Company sustained net losses of \$660,000 and \$1,323,000 for the six months ended June 30, 2013 and 2012, respectively, and had working capital of \$3,587,000 at June 30, 2013.

The Company's business operations have been primarily funded over the past four years through private placements of its capital stock. The Company raised an aggregate of \$2,000,000 through private placements of equity with accredited investors in 2012, \$7,213,000 in 2010 and \$5,304,000 in 2009 principally from private equity investors. The use of proceeds is intended for general working capital needs as well as the acquisition of econozale nitrate cream 1% which was purchased on February 1, 2013. The Company purchased a product and certain product rights which are expected to provide contribution to its gross profit in 2013 (See Note 10). In August 2012, the Company also entered into a \$3,000,000 line of credit (See Note 8). In February 2013, the Company drew down an additional \$1,000,000 from the available credit facility. As of June 30, 2013, the outstanding balance on the line of credit was \$2,000,000. On August 2, 2013, the Company drew down an additional \$1,000,000 from the available credit facility. The Company may require additional funding and this funding will depend, in part, on the timing and structure of potential business arrangements. If necessary, the Company may continue to seek to raise additional capital through the sale of its equity. There may also be additional acquisition and growth opportunities that may require external financing. There can be no assurance that such financing will be available on terms acceptable to the Company, or at all. The Company also has the ability to defer certain product development and other programs, if necessary. The Company believes that its existing capital resources will be sufficient to support its current business plan and operations for at least the next twelve months.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for excess and obsolete inventories, allowances for doubtful accounts, provisions for income taxes and related deferred tax asset valuation allowance, stock based compensation, provisions for sales returns, chargebacks and other allowances, and accruals for environmental cleanup and remediation costs. Actual results could differ from those estimates.