PGI INC
Form 10KSB
March 30, 2007

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

FORM 10-KSB

(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, 2006

( ) 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 1-6471

PGI INCORPORATED
(Name of small business issuer in its charter)

Florida	59-0867335
(State or other jurisdiction of incorporation or organization)	(IRS Employer Ident. No.)

212 S. Central, Suite 100 St. Louis, Missouri	63105
(Address of principal executive offices)	(Zip Code)

Issuer's Telephone Number, including area code: (314)512-8650

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

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

Common Stock, Par Value $.10 per share
6% Convertible Subordinated Debentures due 1992
6.5% Convertible Subordinated Debentures due 1991

Check whether the issuer is not required to file reports pursuant to Section 13 or 15 (d) of the Exchange Act. [ ]

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the past 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.

X Yes ______ No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.(x)

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

Yes ______ X No ______

State the issuer's revenues for its most recent fiscal year: $420,000.

The aggregate market value of voting stock held by non-affiliates of the registrant cannot be determined. See Item 5 of Form 10-KSB.

State the number of shares outstanding of each of the Issuer's classes of common equity as of the last practicable date:

As of March 30, 2007, 5,317,758 shares of Common Stock, par value $.10 per share were outstanding.

PGI INCORPORATED AND SUBSIDIARIES
FORM 10 - KSB - 2006
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PART I

Item 1. Description of Business

GENERAL

As used in this Annual Report on Form 10-KSB, the "Company" refers, unless the context otherwise requires, to PGI Incorporated and its subsidiaries. The Company's executive offices are at 212 S. Central, Suite 100, St. Louis, Missouri, 63105, and its telephone number is (314) 512-8650.

The Company, a Florida corporation, was founded in 1958, and up until the mid 1990's was in the business of building and selling homes, developing and selling home sites and selling undeveloped or partially developed tracts of land. Over approximately the last 10 years, the Company's business focus and emphasis changed substantially as it concentrated its sales and marketing efforts almost exclusively on the disposition of its remaining real estate. This change was prompted by its continuing financial difficulties due to the principal and interest owed on its debt.

Presently, the most valuable remaining asset of the Company is a parcel of 366 acres located in Hernando County, Florida. The Company also owns a number of scattered sites in Charlotte County, Florida (the "Charlotte Property"), but most of these sites are subject to easements which markedly reduce their value and/or consist of wetlands of indeterminate value. As of December 31, 2006, the Company also owned eight single family lots, located in Citrus County, Florida.

As of December 31, 2006, the Company had no employees, and all services provided to the Company are through contract services.

RECENT DEVELOPMENTS

The principal remaining real property asset of the Company is a 366 acre undeveloped parcel in Hernando County, Florida, which property is encumbered by secured creditor claims. An appraisal dated April 2, 2002 was performed by the appraisal firm Gillis and Associates, and they reached a conclusion that the value of this property was $8,000 per acre, and hence $2,928,000 for the entire parcel.

External circumstances make it difficult to forecast the timing or ultimate use of this 366 acre property. Principal among the external factors is that the property is at the present northern termination of the Suncoast Expressway. Planning continues for the proposed northward continuation of the Suncoast Expressway, with the most actively considered routes each predicated on taking part of the subject property. Until and unless the uncertainty regarding the future expansion of the Suncoast Expressway is resolved, planning with respect to this property is difficult.

Item 2. Description of Property

The primary asset of the Company is a 366 acre tract of vacant land in Hernando County, Florida. The present zoning, and hence the presently proposed use of this parcel, is for single family residential lot development. Several factors suggest that this originally planned use may be inappropriate and/or not the best use given present circumstances.

Foremost among these factors is that the Suncoast Expressway may be extended to the north. Such an extension is almost certain to impact the property, since the probable routes as presently proposed would require a significant part of the tract. Additional factors include the present lack of water and sewers on the site, as well as the lack of roads on the site. Also, about forty acres of the property have been designated in the Hernando County's future land use plan for commercial use rather than single family use. Finally, market demand appears to be shifting away from lots with greenways as originally contemplated in favor of larger estate type lots and/or higher density condo/townhouse development.

Other vacant parcels, which could be competitive, do exist in the immediate area, most of which do not suffer the same planning constraint concerning the possible extension of the Suncoast Expressway.

The property is encumbered by mortgages granted by the Company in connection with the primary lender debt of $539,000 in principal and accrued interest and the convertible debentures held by Love 1989 Florida Partners, L.P. ("Love-1989") which total $8,696,000 in principal and accrued interest at December 31, 2006. The primary lender debt and convertible debentures are past due (See Notes 7 and 9 to the Consolidated Financial Statements under Item 7).

The Company also owns a number of scattered sites in Charlotte County. Substantially all such holdings, however, consist of property that is subject to development restrictions occasioned by being seriously impacted by wetlands. The potential purchaser market for such properties is extremely limited. The Company also owns eight single family lots in Citrus County, Florida. The Company continues its efforts to dispose of all of its real estate.

The Company believes the properties are adequately covered by insurance.

Item 3. Legal Proceedings

The Company is a party to routine legal proceedings incidental to the normal operation of its business. The Company does not believe that the resolution of any such proceedings individually, or collectively, will have a material effect on its financial position.

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

A shareholders meeting was not held during the fiscal year ended December 31, 2006.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

There is no public trading market for the Company's common equity securities. There have been no reported transactions in the Company's common stock, par value $.10 (the "Common Stock"), since January 29, 1991, with the exception of the odd lot tender offer by PGIP, LLC, an affiliate of the Company, ("PGIP") in 2003 described previously in the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2004. No dividends have ever been paid on the Common Stock, and payment of dividends is restricted under the terms of the two indentures pursuant to which the Company's outstanding debentures are issued. As of December 31, 2006 to the Company's knowledge, there were 605 holders of record of the Company's Common Stock and approximately 445 debenture holders.

Item 6. Management's Discussion and Analysis or Plan of Operation

PRELIMINARY NOTE

Because the liabilities of the Company far exceed the reported value of its assets, the most important information and analysis concerns the nature and probable actions of the major holders of the Company's debt. Foremost among these are the Company's 6.5% subordinated convertible debentures, which matured June, 1991, with an original face amount of $1,034,000, and its 6.0% subordinated convertible debentures which matured May, 1992, with an original face amount of $8,025,000.

The cumulative amount due for these two issues is as follows:

	12/31/2006 Principal Amount Due	12/31/2006 Unpaid Interest
	($ in thousands)	
Subordinated debentures due June 1, 1991	$ 1,034	$ 1,184

Subordinated debentures due May 1, 1992	8,025	11,923
	$ 9,059	$ 13,107

Both issues have been in payment default for approximately fifteen years, and there has been little contact with or on behalf of the bondholders over the past several years. It is unclear whether any action on behalf of the bondholders is presently likely, given the negative net worth of the Company and continuing passage of time. Further, the Company believes that at least a portion of such claims might be barred under the applicable statutes of limitations.

If such claims are barred, it is possible that the Company would potentially have to record net income in like amount, without the receipt of any cash, and could potentially incur a large tax liability. Any such potential tax liability might be averted and/or mitigated, however, by the utilization of the Company's tax loss carryforwards, which as of December 31, 2006 totaled approximately $41,000,000.

Item 6. Management's Discussion and Analysis or Plan of Operation (continued)

Even if claims by the subordinated convertible debenture holders are barred in full and there is no cash tax consequence to the Company as a result of the utilization of the tax loss carry forwards, the Company would nonetheless have a substantial Stockholder Deficiency.

Similar defenses would not appear to apply to other creditors of the Company, and the credit agreements with the Company's primary lender, PGIP, and with the holder of its secured Convertible Debentures are secured by mortgages and security interests in assets of the Company.

Therefore, the Company's major effort and activities have been, and continue to be, to liquidate assets of the Company to pay the ordinary on-going costs of operation of the Company, with any large surplus expected to be used to reduce the balance due to its primary lender (or to the holder of the secured Convertible Debentures, as required should the asset sale include their collateral).

The Company attempts to realize full market value for each such asset, which may be at substantial variance from its present carrying value. However, the major assets of the Company that remain are both difficult to value and difficult to sell. Certain of these assets may be of so little value and marketability that the Company may elect not to pay the real estate taxes on selected parcels, which may eventually result in a defacto liquidation of such property by subjecting such property to a tax sale.

Generally, the Company intends to continue to seek the liquidation of assets and to use the proceeds to fund the normal cost of operations of the Company and/or to satisfy the requirements of the Company's secured creditors.

Item 6. Management's Discussion and Analysis or Plan of Operation (continued)

RESULTS OF OPERATIONS

Revenues

Revenues for the year ended December 31, 2006 decreased by $47,000 to $420,000 compared to revenues of $467,000 for the year ended December 31, 2005 primarily reflecting decreased real estate sales revenue of $205,000, offset by an increase in other income of $130,000. The other income in 2006 includes $312,000 as a result of the reversal of accrued real estate taxes from 1997, which had been in litigation with Citrus County, and has been finally concluded. Other income in 2005 includes primarily proceeds of $154,000 for delinquent receivables received by the Company from the foreclosure on ten lots. The Company did not receive proceeds from lot foreclosures in 2006. In addition, interest income increased by $28,000 during 2006, primarily due to an increase of $40,000 of interest earned from the Company's investment in short term notes with an affiliate of the Company. The net loss was $3,038,000 ($.69 per share) for 2006 compared to a net loss of $2,637,000 ($.62 per share) for 2005. Included in the 2006 and 2005 earnings per share computation is $640,000 ($.12 per share of Common Stock) of annual cumulative preferred stock dividends in arrears.

Costs and Expenses

Expenses for the years 2006 and 2005 were:

	2006	2005
Cost of Real Estate Sales	$ -	$ 24,000
Taxes and Assessments	21,000	11,000
Consulting and Accounting	41,000	41,000
Legal and Professional	46,000	21,000
General and Administrative	65,000	50,000

Costs of Real Estate Sales decreased by $24,000 in 2006 as a result of only one sale of a small parcel of real estate during 2006, which was carried at no value on the Company's books. Taxes and assessments increased by $10,000 in 2006 as a result of the 2005 reversal of accrued taxes on lots for which foreclosure was completed in 2005 by sale for delinquent receivables. Legal and professional expenses increased by $25,000 in 2006 due to expenses incurred for a hotel market study and other consulting services. General and Administrative expenses increased by $15,000 as a result of increased audit fees and additional records storage expense due to removal of storage contents.

Interest expense for the two years ended December 31, 2006 and 2005 was:

	2006	2005
	($ in thousands)	
Interest Expense	$ 3,285	$ 2,957

Interest expense in 2006 increased by $328,000 compared to 2005 as a result of (i) interest accruing on past due balances which increase at various intervals throughout the year for accrued but unpaid interest, and (ii) an increase in interest rates during 2006.

Item 6. Management's Discussion and Analysis or Plan of Operation (continued)

FINANCIAL CONDITION

Total assets decreased at December 31, 2006 compared to total assets at December 31, 2005 reflecting the following changes:

	2006	2005	Increase (Decrease)
	($ in thousands)		
Cash and Cash Equivalents	$ 3	$ 147	$ (144)
Restricted Cash	5	255	(250)
Receivables	926	633	293
Land and Improvement	641	637	4
Other Assets	199	178	21
	$ 1,774	$ 1,850	$ (76)

Cash decreased by $144,000 to $3,000 at December 31, 2006 compared to $147,000 at December 31, 2005. Net cash used in operations was $107,000 for the year ended December 31, 2006 compared to net cash provided by operations of $212,000 for the year ended December 31, 2005. Net cash used in operations consists of cash received from operations less cash expended for operations.

Cash received from operations during 2006 was $78,000, a $384,000 decrease from cash received during 2005 of $462,000.

Cash expended for operations decreased by $65,000 to $185,000 during 2006 from $250,000 in 2005, reflecting decreases in real estate sales ($24,000), interest payments ($24,000), taxes and assessments ($62,000), and consulting and accounting ($1,000), while being offset by an increase in legal and professional ($31,000), and general and administrative ($15,000).

During 2006, investing activities utilized $37,000 of cash, which consisted of a $273,000 investment in a short-term note with Love Investment Company ("LIC"), an affiliate of Love-PGI Partners, L.P. ("L-PGI"), the Company's preferred shareholder, and $16,000 in expenditures relating to purchases of inventory and deferred expenditures, which was offset by the receipt of $252,000 from the release of restricted cash. The $273,000 short-term note with Love Investment Company is the primary reason for the increase of $293,000 in the Company's receivables as of December 31, 2006 from December 31, 2005.

During 2005, $266,000 of cash was used by the Company in investing activities which included a $ 260,000 investment in a short term note with LIC, and $6,000 in purchases of inventory and deferred expenditures.

Liabilities were approximately $42,700,000 at December 31, 2006 compared to approximately $39,700,000 at December 31, 2005, reflecting the following changes:

	2006	2005	Increase (Decrease)
	($ in thousands)		
Accounts payable and accrued expenses	$ 52	$ 49	$ 3
Accrued real estate taxes	18	312	(294)
Accrued interest	30,341	27,088	3,253
Credit agreements - primary lender	500	500	-
Notes payable	1,198	1,198	-
Convertible subordinated debentures payable	9,059	9,059	-
Convertible debentures payable	1,500	1,500	-
	$ 42,668	$ 39,706	$ 2,962

The $3,253,000 increase in accrued interest at December 31, 2006 compared to year-end 2005 reflects changes in the following:

	2006	2005	Increase (Decrease)
	($ in thousands)		
Primary Lender	$ 39	$ 5	$ 34
Debentures	27,854	24,752	3,102
Other	2,448	2,331	117
	$ 30,341	$ 27,088	$ 3,253

The accrued interest relating to debentures increased due to the nonpayment of previously accrued interest on the Company's debentures (see Notes 8 and 9 to the consolidated financial statements under Item 7).

The Company's accumulated capital deficiency increased to $40,894,000 at December 31, 2006 from a $37,856,000 accumulated capital deficiency at December 31, 2005, reflecting the 2006 operating loss of $3,038,000.

New Accounting Standards

In September 2006 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" effective as of the end of the fiscal year ending after June 15, 2007. The Company does not expect this statement to have a material impact on the results of operations or financial position.

In September 2006 the FASB issued SFAS 157 "Fair Value Measurements" effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years. The Company does not expect this statement to have a material impact on the results of operations or financial position.

In June 2006 the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109" effective for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the impact of this statement on the results of operations or financial position.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140". SFAS No. 156 will become effective for fiscal years beginning after September 15, 2006. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability at fair value, if possible, each time it undertakes an obligation to service a financial asset by entering into a servicing contract under certain conditions. Management has determined that the implementation of SFAS No. 156 will not have an effect on the Company's financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140" effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Management has determined that the implementation of SFAS No. 155 will not have an effect on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29" effective for nonmonetary asset exchanges occurring in the fiscal year beginning January 1, 2006. SFAS No. 153 requires that exchanges of productive assets be accounted for at fair value unless fair value cannot be reasonably determined or the transaction lacks commercial substance. Management has determined that the implementation of SFAS No. 153 will not have an effect on the Company's financial statements.

Forward Looking Statements

The discussion set forth in this Item 6, as well as other portions of this Form 10-KSB, may contain forward-looking comments. Such comments are based upon the information currently available to management of the Company and management's perception thereof as of the date of the Form 10-KSB. When used in this Form 10-KSB, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in the real estate market in Florida and the counties in which the Company owns any property; institution of legal action by the bondholders for collection of any amounts due under the subordinated convertible debentures; continued failure by governmental authorities to make a decision with respect to the Suncoast Expressway as described under Item 1; changes in management strategy; and other factors set forth in reports and other documents filed by the Company with the Securities and Exchange Commission from time to time.

Item 7. Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
PGI, Incorporated
St. Louis, Missouri

We have audited the accompanying consolidated statements of financial position of PGI Incorporated and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 PGI Incorporated and Subsidiaries at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has a significant accumulated deficit, and is in default on its primary debt (Note 7), certain sinking fund and interest payments on its convertible subordinated debentures (Note 8) and its convertible debentures (Note 9). These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BKD, LLP

St. Louis, Missouri
March 26, 2007

PGI INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2006 and 2005

	ASSETS			LIA
	2006	2005		200
Cash and cash equivalents	$3,000	$147,000	Accounts payable and accrued expenses (Note 6)	$52,00
Restricted cash (Note 3)	5,000	255,000	Accrued real estate taxes (Note 6)	18,00
Receivables on real estate sales- net	-	1,000		
Other receivables (Note 14)	926,000	632,000	Accrued Interest:	
			Primary Lender	39,00
Land and improvement inventories (Note 4)	641,000	637,000	Debentures (Notes 8 & 9)	27,854,00
			Other (Note 8)	2,448,00
Other assets (Note 5)	199,000	178,000	Credit Agreements (Note 7)	
			Primary Lender	500,00
			Notes payable	1,198,00
			Subordinated convertible debentures payable (Note 8)	9,059,00
			Convertible debentures	
1,500,000				
			Commitments and Contingencies (Note 13)	42,668,00
			STOCKHOLDERS' DEFICIENCY	
			Preferred stock, par value $1.00 per share; authorized 5,000,000 shares; 2,000,000 Class A cumulative convertible Shares issued and outstanding; (liquidation preference of $8,000,000 and cumulative dividends) (Note 11)	2,000,00
			Common stock, par value $.10 per share; authorized 25,000,000 shares; 5,317,758	

		shares issued and outstanding (Note 11)	532,00
		Paid-in capital	13,498,00
		Accumulated deficit	(56,924,00
			(40,894,00
$ 1,774,000	$1,850,000		$1,774,00

See accompanying notes to consolidated financial statements

PGI INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2006 and 2005

	2006	2005
Revenues:		
Real estate sales (Note 2)	$ 10,000	$ 215,000
Interest income	83,000	55,000
Other income (Note 2)	327,000	197,000
	420,000	467,000
Costs and expenses:		
Cost of real estate sales (Note 2)	-	24,000
Interest	3,285,000	2,957,000
Taxes and assessments	21,000	11,000
Consulting and accounting	41,000	41,000
Legal and professional	46,000	21,000
General and administrative	65,000	50,000
	3,458,000	3,104,000
Net (Loss)	$ (3,038,000)	$ (2,637,000)
(Loss) Per Share Available to Common Stockholders - Basic and Diluted (Note 16)	$ (.69)	$ (.62)

See accompanying notes to consolidated financial statements.

PGI INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	2006	20
Cash flows from operating activities:		
Cash received from operations:		
Collections from real estate sales and receivables on such sales	$ 10,000	$ 2
Interest received	53,000	
Other operating receipts	15,000	2
	78,000	4
Cash expended for operations:		
Payments for real estate sales	-	
Interest paid	32,000	
Taxes and assessments	1,000	
Consulting and accounting	39,000	
Legal and professional	49,000	
General and administrative	64,000	
	185,000	2
Net cash flow provided by (used in) operating activities	(107,000)	2
Cash flows from investing activities:		
Investment in notes receivables	(273,000)	(2
Purchases of inventory and deferred expenditures	(16,000)	
Proceeds from release of restricted cash	252,000	
Net cash flow (used in) investing activities	(37,000)	(2
Net decrease in cash and cash equivalents	(144,000)	(
Cash and cash equivalents at beginning of year	147,000	2
Cash and cash equivalents at end of year	$ 3,000	$ 1
Non-cash investing and financing activities:		
Interest earned on restricted cash	$ 2,000	$

See accompanying notes to consolidated financial statements.

PGI INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years ended December 31, 2006 and 2005

	2006	20
Reconciliation of net (loss) to net cash provided by (used in) operating activities:		
Net (loss)	$ (3,038,000)	$ (2,6
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Earnings capitalized into restricted cash	(2,000)	
(Increase) decrease in assets:		
Other receivables	(19,000)	
Land and improvement inventories-net	-	
Prepaid expenses and deposits	(9,000)	
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	2,000	
Accrued real estate taxes	(294,000)	(
Deferred credits		
Accrued interest	3,253,000	2,9
Net cash flow provided by (used in) operating activities	$ (107,000)	$ 2

See accompanying notes to consolidated financial statements.

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PGI INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
Years ended December 31, 2006 and 2005

	Preferred Stock		Common Stock	
	Shares	Par Value	Shares	Par Value
Balances at 1/1/05	2,000,000	$2,000,000	5,317,758	$ 532,000
Net Loss	-	-	-	-
Balances at 12/31/05	2,000,000	$2,000,000	5,317,758	$ 532,000
Net Loss	-	-	-	-

Balances at 12/31/06	2,000,000	$2,000,000	5,317,758	$ 532,000
	=========	==========	=========	===========

See accompanying notes to consolidated financial statements.

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PGI INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after eliminating all significant inter-company transactions.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Revenue and Profit Recognition

Homesites

The Company adopted the installment method of profit recognition in accordance with Statement of Financial Accounting Standards No. 66 "Accounting for Sales of Real Estate".

Acreage

Sales of undeveloped and developed acreage tracts are recognized, net of any deferred revenue and valuation discount, when minimum down payment and other requirements are met.

Land and Improvement Inventories

Land held for sale to customers and land held for bulk sale are stated at cost, which is not in excess of estimated net realizable value. Homesite costs are allocated to projects based on area methods, which consider footage, future improvements costs and frontage.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

New Accounting Standards

In September 2006 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" effective as of the end of the fiscal year ending after June 15, 2007. The Company does not expect this statement to have a material impact on the results of operations or financial position.

In September 2006 the FASB issued SFAS 157 "Fair Value Measurements" effective for fiscal year beginning after November 15, 2007, and all interim periods within those fiscal years. The Company does not expect this statement to have a material impact on the results of operations for financial position.

In June 2006 the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109" effective for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the impact of this statement on the results of operations or financial position.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140". SFAS No. 156 will become effective for fiscal years beginning after September 15, 2006. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability at fair value, if possible, each time it undertakes an obligation to service a financial asset by entering into a servicing contract under certain conditions. Management has determined that the implementation of SFAS No. 156 will not have an effect on the Company's financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140" effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Management has determined that the implementation of SFAS No. 155 will not have an effect on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29" effective for nonmonetary asset exchanges occurring in the fiscal year beginning January 1, 2006. SFAS No. 153 requires that exchanges of productive assets be accounted for at fair value unless fair value cannot be reasonably determined or the transaction lacks commercial substance. Management has determined that the implementation of SFAS No. 153 will not have an effect on the Company's financial statements.

PGI INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

2. Real Estate Sales and Other Income:

Real estate sales and cost of sales consisted of:

	2006	2005
Homesite/acreage sales	$ 10,000	$ 215,000
Cost of Sales	-	24,000
Gross Profit Margin	$ 10,000	$ 191,000

In the second quarter of 2006, the Company completed the sale of a small piece of land at the price of $10,000. This odd remnant of a lot was not carried for any value on the Company's books.

In the first quarter of 2005, the Company completed the sale of an unusual real estate parcel, at the price of $175,000. This parcel was not carried for any value on the Company's books, inasmuch as it was an undevelopable thin strip of mangrove fringe. However, because of the height of the mangroves, the adjoining property owner purchased this fringe strip in order to be able to enhance the view amenity on his proposed developments.

Other income for the years 2006 and 2005 was $327,000 and $197,000, respectively. The other income for 2006 includes $312,000 which resulted from the reversal of accrued real estate taxes due to the ultimate conclusion of the lawsuit in Citrus County regarding the 1997 agricultural exemption status of the Company's undeveloped Sugarmill Woods property. In 2005, the Company foreclosed on ten lots and received proceeds of $154,000 for delinquent receivables.

3. Restricted Cash:

Restricted cash includes restricted proceeds held by PGIP,LLC ("PGIP"), the Primary Lender, as collateral for debt repayment. (See Note 14)

The restricted escrow funds at December 31, 2006 and December 31, 2005 was $5,000 and $255,000 respectively. The Company utilized $220,000 of the primary lender restricted escrow in 2006 to invest in a short-term note with an affiliate of L-PGI, the Company's preferred shareholder, Love Investment Company, and utilized $32,000 for interest payments to PGIP on the primary lender debt. Interest earned on the restricted cash in 2006 was $2,000.

4. Land and Improvements:

Land and improvement inventories consisted of:

	2006	2005
Unimproved land	$ 625,000	$ 621,000
Fully improved land	16,000	16,000
	$ 641,000	$ 637,000

5. Other Assets:

Other assets consisted of:

	2006	2005
Deposit with Trustee of 6 1/2% debentures	$ 172,000	$ 165,000
Prepaid Expenses	5,000	3,000
Deferred Charges	22,000	10,000
	$ 199,000	$ 178,000

6. Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consisted of:

	2006	2005
Accounts payable	$ 12,000	$ 12,000
Accrued audit/tax expense	32,000	31,000
Accrued consulting fees	2,000	6,000
Accrued accounting services	5,000	-
Accrued miscellaneous	1,000	-
	$ 52,000	$ 49,000

Accrued Real Estate Taxes:

Accrued real estate taxes consisted of:

Current	$ 18,000	$ -
Delinquent	-	312,000
	$ 18,000	$ 312,000

7. Credit Agreements - Primary Lender and Notes Payable:

Credit agreements with the Company's primary lender and notes payable consisted of the following:

2006	2005

	----	----
Credit agreements - primary lender (Balance is past due, bearing interest at prime plus 5.0%):	$ 500,000	$ 500,000
Notes payable - $1,176,000 bearing interest at prime rate plus 2%, the remainder bearing interest at 12%, all past due	1,198,000	1,198,000
	$1,698,000	$1,698,000

The prime rate at December 31, 2006 and 2005 was 8.25% and 7.25% respectively.

At December 31, 2006 assets collateralizing the Company's credit agreements with its primary lender totaled $646,000, of which $5,000 represented escrow held by the primary lender, and $641,000 represented land and improvement inventories.

The overall weighted average interest rate for the Company's credit agreements with its primary lender and all remaining notes and mortgages was approximately 10.8% as of December 31, 2006 and 9% as of December 31, 2005.

Although substantially all of the Company's real and personal property including all of the stock of the Company's wholly-owned subsidiaries remains pledged as collateral, the Company negotiated agreements with its mortgage holders to allow the Company to sell part of its land holdings without requiring full payment of the secured debt.

Accrued interest on other notes payable was $2,448,000 and $2,331,000 at December 31, 2006 and 2005, respectively.

All of the primary lender debt and notes payable are past due.

8. Subordinated Convertible Debentures Payable:

Subordinated debentures payable consisted of:

	2006	2005
6 1/2%, due June 1991	$1,034,000	$1,034,000
6%, due May 1992	8,025,000	8,025,000
	$9,059,000	$9,059,000

Since issuance, $650,000 and $152,000 of the 6 1/2% and 6% debentures, respectively, have been converted into common stock; however, this conversion feature is no longer in effect.

The Company is in default of certain sinking fund and interest payments on both subordinated debentures totaling $9,059,000 in principal plus accrued and unpaid interest of $13,106,000 at December 31, 2006 and

$12,093,000 as of December 31, 2005.

The debentures are not collateralized and are not subordinated to each other, but are subordinated to senior indebtedness ($3,198,000 at December 31, 2006). Payment of dividends on the Company's common stock is restricted under the terms of the two indentures pursuant to which the outstanding debentures are issued.

In order to meet liquidity needs for future periods, the Company has been and intends to continue to actively seek buyers for the remaining portion of the underdeveloped acreage, when appropriate.

No assurances can be made that the Company can achieve this objective.

9. Convertible Debentures Payable:

In July and September 1989, the Company sold $1,282,000 and $1,000,000 respectively, of convertible debentures to a partnership affiliated with the Company's preferred shareholder. In connection with the July 1992 Secured Lender Transaction in partial consideration for the conveyance of 366 acres of property, the principal amount due to convertible debenture holders was reduced by $782,000 and accrued interest thereon was reduced by $389,000 leaving a balance of $1,500,000. The maturity date on all the remaining debentures was extended to July 8, 1997 so that the debentures are in default. The past due debentures accrue interest at 14% compounded quarterly. The Company's primary lender credit agreements, however, prohibit the payment of interest until such time as the primary lender loans are repaid. At maturity the Convertible Debentures purchased on July 24, 1989, were convertible into 868,788 common shares and those purchased on September 29, 1989, were convertible into 1,726,568 common shares, or a total of 2,595,356 shares of common stock at an initial conversion price of $1.72 per share. The conversion price may be adjusted upon the occurrence of certain events. The debentures held by Love-1989 Florida Partners, L.P., are secured by a second mortgage behind PGIP on the 366 acres retained by the Company and a security interest behind that held by PGIP in the restricted proceeds escrow.

Accrued interest was $14,748,000 and $12,659,000 at December 31, 2006 and 2005 respectively.

10. Income Taxes:

Reconciliation of the statutory federal income tax rates, 34% for the years ended December 31, 2006 and 2005, to the Company's effective income tax rates follows:

	2006		2005	
	($ in thousands)			
		Percent of		Percent of

	Amount of tax	Pre-tax Loss	Amount of Tax	Pre-tax loss
Expected tax (credit)	$ (1,033)	(34.0%)	$ (897)	(34.0%)
State income taxes, net of federal tax benefits	(122)	(4.0%)	(105)	(4.0%)
Increase in valuation allowance	1,155	38.0%	1,002	38.0%
	$ -	-	$ -	-

At December 31, 2006, the Company had an operating loss carryforward of approximately $41,000,000 which will expire at various dates through 2026.

	2006	2005
	($ in thousands)	
Deferred tax asset:		
Net operating loss carryover	$ 15,884	$ 14,729
Adjustments to reduce land to net realizable value	12	12
Expenses capitalized under IRC 263(a)	56	56
Valuation allowance	(15,780)	(14,625)
	$ 172	$ 172
Deferred tax liability:		
Basis difference of land and improvement inventories.	$ 172	$ 172
Net deferred tax asset	$ -	$ -

PGI INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

11. Capital Stock:

In March 1987, the Company sold, in a private placement 1,875,000 shares of its Class A cumulative convertible preferred stock to L-PGI for a purchase price of $7,500,000 cash ($4.00 per share). The Company also converted $500,000 of indebtedness owed to a corporation owned by the Company's former Chairman of the Board of Directors and members of his family into 125,000 shares of the cumulative convertible preferred stock.

The holders of the preferred stock are entitled to one vote per share and, except as provided by law, will vote as one class with the holders of the common stock. Class A preferred stockholders are also entitled to receive cumulative dividends at the annual rate of $.32 per share, an effective yield of 8%. Dividends accrued for an initial two year period and, at the expiration of this period, preferred stockholders had the option of receiving accumulated dividends, when and if declared by the Board of Directors, in cash (unless prohibited by law or contract) or common stock. At December 31, 2006 cumulative preferred dividends in arrears totaled $7,475,000 ($640,000 of which related to the year ended December 31, 2006). On May 15, 1997 preferred dividends accrued through April 25, 1995 totaling $4,260,433 were paid in the form of 2,000,203 shares of common stock.

As of December 31, 2006, the preferred stock is callable or redeemable at the option of the Company at $4.00 per share plus accrued and unpaid dividends. In addition, the preferred stock will be entitled to preference of $4.00 per share plus accrued and unpaid dividends in the event of liquidation of the Company.

At December 31, 2006 the Company had reserved 6,355,356 common shares for the conversion of preferred stock and debentures.

12. Quarterly Results:

There were no significant transactions in the fourth quarter of 2006.

13. Commitments and Contingencies:

The Company is a party to various legal proceedings incidental to the normal operation of its business. The Company does not believe that the resolution of any such proceedings, individually, or collectively, will have a material effect on its financial position.

14. Related Party Transactions:

As of December 31, 2006 the Company was in default of its primary credit agreements with PGIP, its Primary Lender.

PGIP is owned and managed by Love Savings Holding Company ("LSHC"), Andrew S. Love, Jr. and Laurence A. Schiffer. Messrs. Love and Schiffer are directors and executive officers of LSHC and own 90% of all the issued and outstanding voting stock of LSHC. Messrs. Love and Schiffer serve as the executive officers and directors of the Company.

The Company maintains its administration and accounting offices with Love Real Estate Company ("LREC"). LREC, which is an affiliate of L-PGI, the Company's preferred shareholder, is paid a monthly fee for the following:

1. Maintain books of original entry;
2. Prepare quarterly and annual SEC filings;
3. Coordinate the annual audit;
4. Assemble information for tax filing, review reports as prepared by tax accountants and file same;
5. Track shareholder records through transfer agent;
6. Maintain policies of insurance against property and liability exposure;
7. Handle day-to-day accounting requirements

In addition, the Company receives office space, telephone service and computer service from LREC. A fee of $2,800 per month was accrued in 2006 and 2005. The Company made payments of $28,000 and $33,600 to LREC in 2006 and 2005 respectively for accounting service fees. As of December 31, 2006 there was $5,600 in accrued accounting service fees.

Effective March 25, 1987, the Company entered into a Management Consulting Agreement with LREC. As a consultant to the Company and in addition to the above services, LREC provides other services including, but not limited to, strategic planning, marketing and financing as requested by the Company. In consideration for these consulting services, the Company pays LREC a quarterly consulting fee of one-tenth of one percent of the carrying value of the Company's assets, plus reasonable out-of-pocket expenses. As of December 31, 2006, the carrying value of the Company's assets was approximately $1,774,000. Consulting fees totaling $7,000 were accrued during 2006 and 2005, respectively. The Company made payments of $11,000 and $7,000 in 2006 and 2005, respectively for consulting fees. As of December 31, 2006 and 2005, a total of $2,000 and $6,000, respectively, of unpaid fees had accrued under this agreement.

In 1985 a corporation owned by the former Chairman of the Board and his family made an uncollateralized loan to the Company, which at December 31, 2006 had an outstanding balance, including accrued interest, of $512,000. Interest accrued on this loan was $18,000 and $14,000 for the years 2006 and 2005, respectively.

From time to time, the Company invests in short-term debt obligations of an affiliate of L-PGI, the Company's preferred shareholder, Love Investment Company. The balance of this receivable at December 31, 2006 and 2005 was $873,000 and $600,000, respectively. Interest on the loans was $72,000 and $32,000 for 2006 and 2005, respectively.

In 2006 and 2005 the Company incurred expenses totaling $18,000 and $2,000, respectively, for the services of Hallmark Senior Housing, Inc., a related entity, to handle analysis of real estate owned and options available.

15. Fair Value of Financial instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Restricted Cash:

The carrying amount approximates fair value because of the short maturity of those instruments.

Debt:

It was not practicable to estimate the fair value of the Company's debt with its primary lender, its notes payable and its convertible debentures because these debts are in default causing no basis for estimating value by reference to quoted market prices or current rates offered to the Company for debt of the same remaining maturities.

PGI INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

Accounts Payable:

The carrying amount approximates fair value because of the short-term maturity of those debts. The estimated fair values of the Company's financial instruments are as follows:

	2006 Carrying Amount	2006 Fair Value	2005 Carrying Amount	2005 Fair Value
Cash and Restricted Cash	$ 8,000	$ 8,000	$ 402,000	$ 402,000
Other Receivables	926,000	926,000	633,000	633,000
Accounts Payable	12,000	12,000	12,000	12,000
Debt	12,257,000	-	12,257,000	-

16. (Loss) Per Share:

The following is a summary of the calculations used in computing basic and diluted (loss) per share:

	2006	2005
Numerator:		
Net (Loss)	$(3,038,000)	$(2,637,000)
Preferred Dividends	(640,000)	(640,000)
(Loss) Available to Common Shareholders	$(3,678,000)	$(3,277,000)
Denominator:		
BASIC		
Weighted average amount of shares outstanding	5,317,758	5,317,758
DILUTED		
Weighted average amount of shares outstanding	5,317,758	5,317,758
Dilutive effect of assumed conversion of Preferred Stock	-	-
Dilutive common shares	5,317,758	5,317,758
(Loss) per share		
Basic	$ (.69)	$ (.62)

Diluted	(.69)	(.62)

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 8A. Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company. Based on this evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006. There have been no changes in the Company's internal control over financial reporting during the Company's fourth fiscal quarter ending December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information

Not Applicable

PART III

Item 9. Directors, Executive Officers, Promoters, Control Persons, and Corporate Governances; Compliance with Section 16(a) of the Exchange Act

The following information, regarding executive officers and directors of the Company, is as of March 25, 2007.

Name and Age	Position with Company and Business Experience During the Last Five Years
Laurence A. Schiffer (age 67)	Director of the Company since April 1987; President, Chief Executive Officer and Chief Financial Officer of the Company since February 1994; Vice Chairman of the Board since May 1987; President and Chief Executive Officer of Love Real Estate

	Company and Love Investment Company since 1973; Chairman of Heartland Bank and President of LSHC, the parent company of Heartland Bank since December 1985; Manager of PGIP since 1995; member of the Real Estate Board of Metropolitan St. Louis and the National Association of Real Estate Boards.
Andrew S. Love Jr. (age 63)	Director and Chairman of the Company's Board of Directors since May 1987; Secretary since February 1994; Chairman of the Board of Love Real Estate Company and Secretary of Love Investment Company since 1973; Partner in St. Louis based law firm of Bryan, Cave, McPheeters & McRoberts until 1991; Director of Heartland Bank and Chairman of LSHC, the parent company of Heartland Bank since December 1985; Manager of PGIP since 1995.

Executive officers of the Company are appointed annually by the Board of Directors to hold office until their successors are appointed and qualify.

The directors of the Company have determined that the Company does not have an audit committee financial expert serving on its board of directors (which acts as the Company's audit committee). In addition, the Company has not adopted a code of ethics that applies to its principal executive officer and principal financial officer (principal accounting officer). The Company's decision not to adopt a code of ethics or to have an audit committee financial expert are primarily attributable to the following reasons: (i) as a result of its continuing financial difficulties due to amounts owed on its debt, the Company is focused almost exclusively on the disposition of its remaining real estate; (ii) as described in Item 5, there have been no reported transactions in the Company's Common Stock since January 29, 1991, other than the odd lot tender offer in 2003; (iii) the board of directors of the Company consists of only two directors; and (iv) the same person serves as the Company's chief executive officer and chief financial officer.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company was not furnished any Forms 3, 4 or 5, or any amendments thereto, during our most recent fiscal year. Accordingly, the Company is not aware of any officer, director or beneficial owner of more than 10 percent of the Company's registered securities that failed to file on a timely basis Forms 3, 4 and 5 required under Section 16(a) of the Securities Exchange Act of 1934, as amended, during fiscal year ended 2006.

Item 10. Executive Compensation

The Company's Chief Executive Officer and Chief Financial Officer is Mr. Laurence A. Schiffer. Because of the Company's impaired financial condition, it does not compensate in any manner Mr. Schiffer or Mr. Love, the

Company's only other executive officer, for the services they perform for the Company in that capacity. Management services are provided to the Company by LREC pursuant to that certain Management Consulting Agreement by and between the Company and LREC dated March 25, 1987 (the "Management Agreement"). Mr. Schiffer is an employee of, and receives an annual salary from LREC. Mr. Love receives only a nominal salary from LREC. Neither the Company nor LREC maintains records, which would allow either of them to attribute any portion of the remuneration Mr. Schiffer receives from LREC to the management services he performs for the Company. See Item 12. "Certain Relationships and Related Party Transactions, and Directors Independence" for additional information about the Management Agreement.

Neither Mr. Schiffer nor Mr. Love received fees from any source directly attributable to their services as directors of the Company during 2006.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The table below provides certain information as of March 25, 2007 regarding the beneficial ownership of the Common Stock and the Class A cumulative convertible preferred stock (the "Preferred Stock") by each person known by the Company to be the beneficial owner of more than five percent of either the Common Stock or the Preferred Stock, each director of the Company (which persons are also the Company's only executive officers), and by virtue of the foregoing, the directors and executive officers of the Company as a group.

			Percent of Tota	
Name	Common Stock	Preferred Stock	Common Stock (1)	Prefer Stoc
Estate of Harold Vernon	998,777(2)(3)	-	18.8%	
Alfred M. Johns	426,514(4)	125,000(4)	8.0%	6.
Love-PGI Partners, L.P.	2,260,706(5)	1,875,000(5)	42.5%	93.
Andrew S. Love, Jr.	2,263,215(6)	1,875,000(6)	42.5%	93.
Laurence A. Schiffer	2,263,215(7)	1,875,000(7)	42.5%	93.
All executive officers and directors as a group (2 persons)	2,263,215(8)	1,875,000(8)	42.5%	93.