INTERPHARM HOLDINGS INC
Form 10-Q
November 15, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended September 30, 2004

[ ] 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 0-22710

INTERPHARM HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3673965
State or other jurisdiction of corporation or organization)	(I.R.S. Employer Identification Number)
69 Mall Drive Commack, New York	11725
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code (631) 952-0214

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [_]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.

YES [_] NO [X]

As of the close of business on November 12, 2004, there were 24,967,166 shares of the Registrant's $.01 par value per share Common Stock outstanding.

INTERPHARM HOLDINGS, INC.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2004	June 30, 2004
	(Unaudited)	(Audited)
CURRENT ASSETS		
Cash and cash equivalents	$ 3,537,936	$ 2,884,639
Marketable securities, at fair market value	39,984	36,791
Accounts receivable, net	4,481,738	6,849,778
Inventories, net	5,861,213	5,530,161
Prepaid expenses and other current assets	776,114	453,157
Deferred tax assets	1,037,000	1,280,000
Total Current Assets	15,733,985	17,034,526
Land, building and equipment, net	15,512,512	15,007,132
Deferred tax assets	2,902,000	2,902,000
Deposits	589,033	224,287
TOTAL ASSETS	$34,737,530	$35,167,945

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2004	June 30, 2004
	(Unaudited)	(Audited)
CURRENT LIABILITIES		
Current maturities of bank debt payable	$ 370,000	$ 764,01
Accounts payable, accrued expenses, and other liabilities	4,182,110	4,545,34
Total Current Liabilities	4,552,110	5,309,35
OTHER LIABILITIES		
Bank debt, less current maturities	6,968,333	7,060,83
Other liabilities	17,836	14,96
Total Other Liabilities	6,986,169	7,075,80
TOTAL LIABILITIES	11,538,279	12,385,16
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stocks, 10,000,000 shares authorized; issued and outstanding - 6,902,963; aggregate liquidation preference of $5,494,080	348,042	348,04
Common stock, $.01 par value, 70,000,000 shares authorized; shares issued - 25,591,311	255,913	255,91
Additional paid-in capital	19,184,291	19,184,29
Accumulated other comprehensive income (loss)	3,102	(9
Retained earnings	4,205,771	3,792,49
Treasury stock at cost, 624,145 shares	(797,868)	(797,86
TOTAL STOCKHOLDERS' EQUITY	23,199,251	22,782,78
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$34,737,530	$35,167,94

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
SALES, Net	$ 9,053,132	$ 6,875,348
COST OF SALES (including related party rent expense of $102,000 for the three months ended September 30, 2004 and 2003, respectively)	7,113,028	5,443,518
GROSS PROFIT	1,940,104	1,431,830
OPERATING EXPENSES		
Selling, general and administrative expenses	1,086,673	1,033,775
Related party rent expense	18,000	18,000
Research and development	175,459	35,000
TOTAL OPERATING EXPENSES	1,280,132	1,086,775
OPERATING INCOME	659,972	345,055
OTHER INCOME (EXPENSE)		
Interest expense	(3,178)	(6,147)
Interest income	--	2,759
TOTAL OTHER EXPENSE	(3,178)	(3,388)
INCOME BEFORE INCOME TAXES	656,794	341,667
PROVISION FOR INCOME TAXES	243,522	114,228
NET INCOME	$ 413,272	$ 227,439
EARNINGS PER SHARE		
Basic earnings per share	$0.01	$0.01
Diluted earnings per share	$0.01	$0.00
Basic weighted average shares outstanding	24,967,166	16,328,011
Diluted weighted average shares and equivalent shares outstanding	67,978,896	68,612,676

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

For the Three Months Ended September 30, 2004

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount
BALANCE - July 1, 2004	6,902,963	$348,042	25,591,311	$255,913
Unrealized gain on marketable securities, net	--	--	--	--
Net income	--	--	--	--
BALANCE - September 30, 2004	6,902,963	$348,042	25,591,311	$255,913

	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
BALANCE - July 1, 2004	$3,792,499	624,145	$(797,868)	$22,782,785
Unrealized gain on marketable securities, net	--	--	--	3,194
Net income	413,272	--	--	413,272
BALANCE - September 30, 2004	$4,205,771	624,145	$(797,868)	$23,199,251

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHSENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
NET INCOME	$413,272	$227,439
OTHER COMPREHENSIVE INCOME		
Unrealized gain on marketable securities, net	3,194	1,180
TOTAL COMPREHENSIVE INCOME	$416,466	$228,619

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 413,272	$ 227,439
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	262,159	193,237
Deferred tax expense	243,000	--
Tax expense in connection with exercise of employee stock options credited to additional paid-in-capital	--	120,000
Changes in operating assets and liabilities		
Accounts receivable	2,368,040	845,530
Inventories	(331,052)	(2,286,231)
Prepaid expenses and other current assets	(322,957)	(329,681)
Accounts payable, accrued expenses and other liabilities	(360,366)	538,274
TOTAL ADJUSTMENTS	1,858,824	(918,871)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,272,096	(691,432)
CASH FLOWS FROM INVESTING ACTIVITIES		

Proceeds from notes receivable	--	1,524,092
Purchases of building and equipment	(767,539)	(1,121,746)
Deposits	(364,746)	(216,387)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,132,285)	185,959
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in line of credit, bank	(424,847)	(1,639,946)
Repayments of bank notes payable	(61,667)	(461,762)
Cash received in reverse merger transaction	--	3,791
Proceeds from options and warrants exercised	--	2,698,764
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	$ (486,514)	$ 600,847

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended September 30, 2004	2003
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 653,297	$ 95,37
CASH AND CASH EQUIVALENTS - Beginning	2,884,639	2,336,20
CASH AND CASH EQUIVALENTS - Ending	$ 3,537,936	$ 2,431,57
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the periods for:		
Interest	$ 42,817	$15,44
Income taxes	$ 522	$84,45
Non-cash investing and financing activities:		
Conversion of Series J preferred stock to common stock	$ --	$ 1,05
Valuation Adjustment related to reverse merger	$ --	$50,00

See Notes To Condensed Consolidated Financial Statements.

NOTE 1 - Condensed Consolidated Financial Statements

The accompanying interim unaudited consolidated financial statements include the accounts of Interpharm Holdings, Inc. and its subsidiaries that are hereafter referred to as (the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such interim statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The operating results for the three months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended June 30, 2004.

NOTE 2 - Summary of Significant Accounting Policies

Nature of Business
Interpharm Holdings, Inc. through its wholly-owned subsidiary, Interpharm, Inc. ("Interpharm, Inc.") is in the business of developing, manufacturing and marketing generic prescription strength and over-the-counter pharmaceutical products for wholesale distribution throughout the United States. The majority of the Company's sales have been derived from sales of Ibuprofen tablets in both over-the-counter and prescription strength.

Earnings Per Share
Basic earnings per share ("EPS") of common stock is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the amount of earnings for the period available to each share of common stock outstanding during the reporting period, giving effect to all potentially dilutive shares of common stock from the potential exercise of stock options and warrants and conversions of convertible preferred stocks.

Use of Estimates in the Financial Statements
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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include deferred tax asset valuations and inventory overhead costing estimates.

NOTE 2 - Summary of Significant Accounting Policies, continued

Capitalization of Interest and Other Costs

The Company capitalizes interest and certain other direct cost during the active construction period of major capital projects. Capitalized costs are added to the cost of the underlying assets and will be depreciated over the useful lives of the assets. The Company capitalized approximately $40,000 of interest during the three month period ended September 30, 2004 in connection with its capital improvements to the Brookhaven, NY facility.

Stock Based Compensation

At September 30, 2004, the Company had two stock-based employee plans. As permitted under Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock- Based Compensation," the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangements as defined by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of APB No. 25. No stock-based employee compensation cost is reflected in operations, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended September 30,	
	2004	2003
Net income, as reported	$ 413,272	$ 227,439
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of income tax	656,470	167,000
Pro forma	$(243,198)	$ 60,439
Basic net income (loss) per share		
As reported	$ 0.01	$ 0.01
Pro forma	$ (0.01)	$ 0.00
Diluted net income (loss) per share		
As reported	$0.01	$ 0.00
Pro forma	$ (0.01)	$ 0.00

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NOTE 2 - Summary of Significant Accounting Policies, continued

Stock Based Compensation, continued
The fair values of Company common stock options granted to employees were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (1) expected volatility of 145% and 124% for the three months ended September 30, 2004 and 2003, respectively (2) risk-free interest rate of 4.25% and 3.4% for the three months ended September 30, 2004 and 2003, respectively and (3) expected average lives of 10 and 5 years for the three months ended September 30, 2004 and 2003, respectively .

NOTE 3 - Inventories

Inventories consist of the following:

	September 30, 2004	June 30, 2004
Finished goods	$ 189,638	$ 534,175
Work in process	2,841,173	2,710,270
Raw materials	2,500,445	1,932,971
Packaging materials	329,957	352,745
Total	$ 5,861,213	$5,530,161

NOTE 4 - Land, Building and Equipment

Land, building and equipment consists of the following:

	September 30, 2004	June 30, 2004
Land	$ 4,924,000	$ 4,924,000
Building, improvements and construction in progress(a)	4,626,252	4,475,482
Machinery and equipment	6,062,980	5,457,395
Furniture and fixtures	323,304	319,762
Leasehold improvements	2,630,845	2,623,203
	18,567,381	17,799,842
Less: accumulated depreciation and amortization	3,054,869	2,792,710
Land, Building and Equipment, net	$15,512,512	$ 15,007,132

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(a) Not yet placed in service.

NOTE 5- Income Taxes

At September 30, 2004 the Company has remaining Federal net operating loss carryforwards ("NOLs") of approximately $11,500,000 and State NOLs of approximately $10,950,000 expiring through 2024. Pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership, utilization of these NOLs is limited to approximately $2,690,000 per year, plus any prior years' amount not utilized, if any. As of September 30, 2004, the Company has determined that it is more likely than not, that the Company will utilize all of the Federal NOLs in the future. The Company reserved approximately 30% of the State NOLs which the Company does not anticipate utilizing due to State limitations.

In calculating its tax provision for the three month period ended September 30, 2004, the Company applied an aggregate effective tax rate of approximately 37% thereby creating an approximate $243,000 income tax expense and reduced its current deferred tax asset by a like amount.

NOTE 6- Earning Per Share

The calculations of basic and diluted EPS are as follows:

	Three Months Ended September 30,	
	2004	2003
Numerator:		
Net income	$ 413,272	$ 227,439
Less: Preferred stock dividends	41,392	41,392
Less: Net income attributable to Series K preferred stockholders	24,456	19,619
Numerator for basic EPS	347,424	166,428
Effect of dilutive securities:		
Net income attributable to Series K preferred stockholders	24,456	19,619
Numerator for diluted EPS	$ 371,880	$ 186,047
Denominator:		
Denominator for basic EPS weighted average shares outstanding	24,967,166	16,328,011
Effect of dilutive securities:		
Convertible Series K preferred stock	37,648,651	42,684,688
Convertible Series A, B, C and J preferred stocks	7,438	23,452
Stock options	5,355,641	9,576,525

Denominator for diluted EPS	67,978,896	68,612,676
Basic EPS	$ 0.01	$ 0.01
Diluted EPS	$ 0.01	$ 0.00

NOTE 6 - Earning Per Share - Continued

As of September 30, 2004, the total number of common shares outstanding and the number of common shares potentially issuable upon exercise of all outstanding stock options and conversion of preferred stocks (including contingent conversions) is as follows:

Common stock outstanding - September 30, 2004	24,967,166
Stock options and Warrants outstanding	10,535,000
Common stock issuable upon conversion of preferred stocks:	
Series A	1,526
Series A-1 (maximum contingent conversion) - (a)	4,855,389
Series B	292
Series C	5,620
Series K - (b)	37,648,651
Total - (c)	78,013,642

(a) The Series A-1 shares are convertible only if the Company reaches $150 million in annual sales or upon a merger, consolidation, sale of assets or similar transaction.

(b) On June 4, 2004 one seventh of the 2,050,393 Series K shares, or 292,913 shares, converted into 6,274,775 of the Company's common stock. On June 4, 2005 and on each anniversary date thereof, through June 4, 2010, 292,913 Series K shares will automatically convert into 6,274,775 shares of the Company's common stock.

(c) Assuming no further issuance of equity instruments, or changes to the equity structure of the Company, this total represents the maximum number of shares of common stock that could be outstanding through December 31, 2011 (the end of the current vesting and conversion periods).

NOTE 7 - Equity Securities

Common Stock and Stock Options
During the three months ended September 30, 2004, 75,000 options were granted to a non executive new employee to purchase a like amount of the Company's common shares. These options are exercisable at a price of $2.73 per share, vest 20% on each December 31, of 2004 through 2008.

NOTE 8 - Economic Dependency

Major Customers

The Company had the following customer concentrations for the three month periods ended September 30, 2004 and 2003:

Sales - Percent of Revenue

	Three Months Ended September 30,	
	2004	2003
Customer "A"	16%	29%
Customer "B"	32%	28%
Customer "C"	--	12%

NOTE 8 - Economic Dependency - Continued

Accounts Receivable

	September 30, 2004
Customer "A"	$ 770,025
Customer "B"	1,863,345
Customer "C"	--

The Company complies with its supply agreement to sell various strengths of Ibuprofen to the Department of Veteran Affairs through one of their primary customers who is the intermediary wholesale prime vendor.

Major Suppliers

For the three month periods ended September 30, 2004 and September 30, 2003, the Company purchased materials from three suppliers totaling approximately 69% and 86% of the Company's total purchases. At September 30, 2004 and 2003, aggregate amounts due to these suppliers included in accounts payable, were approximately $2,030,250 and $3,380,000 respectively.

NOTE 9 - Related Party Lease

The Company leases its business premises located in Hauppauge, New York, ("Premises") from an entity controlled by three stockholders of the Company under a noncancelable lease expiring in October 2019, and is obligated to pay minimum annual rent of $480,000, plus property taxes, insurance, maintenance and other expenses related to the Premises. The Company believes that the aggregate lease costs for the premises are less that those for comparable facilities in the area.

Upon a change in ownership of the Company, and every three years thereafter, the annual rent will be adjusted to fair market value, as determined by an independent third party.

NOTE 10 - Contingencies

From time to time, the Company is a party to litigation arising in the normal course of its business operations. In the opinion of management, it is not anticipated that the settlement or resolution of any such matters will have a material adverse impact on the Company's financial condition, liquidity or results of operations.

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

Overview

Interpharm Holdings, Inc. ("Interpharm," "we," or "us"), through its wholly-owned subsidiary, Interpharm, Inc., is engaged in the business of developing, manufacturing and marketing generic over-the-counter and prescription strength pharmaceutical products. We make sales both under our own label and to wholesalers and distributors which sell our products under their labels.

We market our products primarily to wholesalers, drug distributors, repackagers, and other manufacturers through our internal sales staff as well as independent sales representatives. Some of our wholesalers and distributors purchase products that are warehoused for drug chains, independent pharmacies, state and federal governmental agencies and managed healthcare organizations. Sales are recognized when the product is shipped and appropriate provisions are made for returns and charge backs.

We believe that key components of our growth have been, and, will continue to be our commitment to quality, capital investment and expansion of our product line. This is evidenced by:

- The purchase of a 92,000 square foot facility in Brookhaven, New York in June, 2004. Once FDA approval is obtained, this facility will double our available space to approximately 200,000 square feet. The second facility rests on 37 acres and provides us with sufficient additional acreage for potential further expansion of our facilities in the future. Until we obtain FDA approval for manufacturing at the Brookhaven facility, we may use the new facility for warehousing and other activities, which would enable us to free up space for additional manufacturing in our current plant.

- Obtaining FDA approval for our ANDA for Hydrocodone Bitartrate and Ibuprofen Tablets, 5 mg/200 mg in May, 2004. This product is a new lower strength version of Hydrocodone Bitartrate and Ibuprofen Tablets, 7.5 mg/200 mg, which is the generic equivalent to the branded drug Vicoprofen(R). Since we were the first company to receive approval to manufacture and market this product in this strength, we were provided the opportunity to market the product as a branded generic drug. We began marketing the product as a branded generic under the name Reprexain(R) in June 2004, pursuant to a contract with Watson Pharmaceuticals, Inc. Pursuant to the terms of the contract, we will manufacture and supply the product to Watson, which will market, sell and distribute the product in the United States. We will receive payment from Watson based on the amount of Reprexian ordered by it for sale as well as a percentage of sales that Watson generates through its marketing efforts.

- Receiving FDA approval for Hydrocodone Bitartrate and Ibuprofen Tablets, 7.5 mg / 200 mg which is the generic equivalent to the branded drug Vicoprofen(R) on October 12, 2004.

As we continue to implement our plan, we are focusing our efforts to (i) continue increasing our market share in our existing product lines by utilizing our manufacturing efficiency, cost competitiveness, and customer loyalty, (ii) obtain FDA approval for the drugs currently under development, (iii) successfully implement our research and development strategy with a view to expanding and diversifying our product line to focus on higher margin products, (iv) leverage off of our competitive strengths in manufacturing to capture market share on our new product lines, (v) increase production capacity in our current plant, (vi) obtain FDA approval for our new facility in a timely manner, (vii) utilize our manufacturing efficiencies to enter into additional manufacturing and supply arrangements, (viii) enter into joint ventures and strategic alliances with companies whose strengths compliment ours, and (ix) create marketing and distribution channels for our existing and future products. However, there are no assurances that we will be able to successfully implement all components of our plan.

Presented below are some of our financial highlights for the three month period ended September 30, 2004, as compared to the same period in 2003.

Results of Operations

			Three Months Ended September 30,	
			2004	2003
			(Unaudited)	(Unaudited)
Total Revenue	Increased	31.7%	$9,053,132	$6,875,348
Gross Profit	Increased	35.5%	$1,940,104	$1,431,830
Operating Income	Increased	91.3%	$ 659,972	$ 345,055
Net Income	Increased	81.7%	$ 413,272	$ 227,439

Three months ended September 30, 2004, compared to September 30, 2003

Revenues

Net Sales for the three-month period ended September 30, 2004 were approximately $2.2 million greater than in the three-month period ended September 30, 2003. Net sales by product are set forth below. In comparing net sales, it should be noted that sales for the three-month period ended September 30, 2003 were impacted by delays in shipment of approximately $1 million of products which were not shipped until October, 2003 due to a packaging bottleneck which was resolved with the purchase of additional packaging lines.

Net sales by product (in thousands of dollars):

Three Months Ended September 30,

	2004 Sales	%	2003 Sales	%	Variance $
Ibuprofen	$6,171	68%	$4,413	64%	$1,758
Allopurinol & Atenolol	1,317	15	1,766	26	(449)
Naproxen	496	5	424	6	72
All Other Products	1,069	12	272	4	797
Total	$9,053		$6,875		$2,178

As indicated in the table above, there was a significant increase in sales of Ibuprofen and a small increase in sales of Naproxen during the three month period ended September 30, 2004 compared to the three-month period ended September 30, 2003. During the same period, there was a decrease in sales of Atenolol, and Allopurinol, which are manufactured for one customer. Additionally, we received approximately $311,000 of revenue attributable to sales of Reprexain(R) during the three-month period ended September 30, 2004. Sales and marketing of Reprexain(R) commenced during the quarter, as such this is the first time the Company has shown revenue for this product.

Cost of Sales

Our cost of sales for the three months ended September 30, 2004 as a percentage of overall total revenue decreased slightly, 0.6 percentage point when compared to the three month period ended September 30, 2003. Raw material prices have remained relatively constant during the three months ended September 30, 2004 when compared to the same period in 2003. The remaining components of our cost of sales, while increasing in dollar amounts, have on average, as a percentage of sales, remained relatively constant.

Gross Profit

Our total gross profit percentage for the three-month period ended September 30, 2004 was 21.4%, an increase of 0.6 percentage points compared to 20.8% for the three-month period ended September 30, 2004. This slight increase is primarily due to improved operating efficiencies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include salaries and related costs, commissions, travel, administrative facilities, communications costs and promotional expenses for our direct sales and marketing staff, administrative and executive salaries and related benefits, legal, accounting and other professional fees as well as general corporate overhead.

Selling, general and administrative expenses increased approximately $53,000 to approximately $1,087,000, or 12.0% of net sales during the three months ended September 30, 2004, from approximately $1,034,000, or 15.0% of net sales, during the same period in 2003. The significant components of this increase are: salaries, including payroll taxes and benefits ($51,000); selling commissions ($42,000), investor and public relations costs ($37,000), utilities ($35,000), professional fees ($32,000); offset by reductions in our legal and accounting costs of $133,000. The increase in salaries, payroll taxes, benefits, professional fees and utilities are primarily attributable to our continuing expansion. In early 2004 we engaged a public relations firm, resulting in expenses during the current quarter with no matching costs incurred during the same three months in 2003. We also incurred significant legal, accounting and other professional costs as a result of the merger between ATEC Group, Inc. and Interpharm, Inc. during the three months ended September 30, 2003. The increase in selling commissions is primarily attributable to our increased sales.

Income Taxes

The effective tax rate for the three month period ended September 30, 2004 of approximately 37% resulted in an aggregate income tax provision of approximately $244,000 compared to an effective aggregate tax rate of 33.4% for the three month period ended September 30, 2003 which resulted in a provision for income taxes of approximately $114,000.

Liquidity and Capital Resources

We currently finance our operations and capital expenditures through cash flows from operations. Net cash provided by operating activities for the three month period ended September 30, 2004 was $2,272,000 as compared to $691,000 net cash used in operating activities for the same period last year. This increase in net cash provided was a result of non-cash operating items of $505,000 added to net income of $413,000, decrease in accounts receivable of $2,368,000, offset by a decrease in accounts payable, accrued expenses and other liabilities of $360,000, and increases in inventories and prepaid expenses and other current assets of $331,000 and $323,000, respectively.

Net cash used in investing activities was $1,132,000 for the three months ended September 30, 2004, which is as a result of increases in fixed assets and building additions of $768,000 and deposits on machinery and equipment of $365,000. A component of our current plan is the expansion of the production capacity at our current facility as well as erecting a modern second facility.

Net cash used in financing activities of $487,000 for the three months ended September 30, 2004, was a result of the pay down of a mortgage loan of $62,000 and working capital lines of credit by $425,000.

In June 2004, we obtained a $21,000,000 credit facility which consists of:

- a $7,400,000 mortgage loan used for the purchase of the second facilty. The loan is being repaid with 119 monthly installments, based upon an amortization schedule of twenty years, and a balloon payment due in ten years for the balance.

- two advised credit lines aggregating $6,600,000 primarily to acquire new equipment and for renovations of the Company's new Yaphank, NY plant. The balance of the funds accessed through these credit lines will convert to fully amortizing five year term loans.

- a $2 million advised non-revolving secured facility for equipment purchases. Each advance cannot exceed 90% of the invoice amount of the new equipment and is convertible into separate notes that fully amortize over 60 months.

- a $5,000,000 advised line of credit primarily for working capital and general corporate purposes.

At the option of the Company, interest will generally be calculated at (i) LIBOR plus 1.5% for 3 to 36 month periods, or at (ii) the Bank's then fixed prime rate. As of September 30, 2004, the interest rate on the mortgage note payable was 3.20%. Other than for our mortgage loan, we have not yet drawn down on the balance of the credit facility. In addition, the Company is required to comply with certain financial covenants. The Bank will review the new credit facility annually; the next review is scheduled to occur no later than November 30, 2004. The credit lines are terminable by the Bank at any time as to undrawn amounts. This new credit facility is collateralized by substantially all assets of the Company and no longer requires personal guarantees of four of the Company's stockholders.

Working capital decreased $543,000 to $11,182,000 from $11,725,000 at June 30, 2004 primarily as a result of a decrease in net accounts receivable. This decrease was mainly attributable to a decrease in sales during the current quarter compared to the previous quarter ended June 30, 2004. A portion of the cash proceeds were used for purchases of additional building and equipment and deposits.

We have entered into agreements to renovate the second facility as well as to purchase new equipment which, in the aggregate will require approximately an additional $2.0 million, funding for which will be generated from operations, draw downs from our advised credit facilities or a combination thereof. According to current plans it is likely that we will require funds in excess of the aforementioned $2.0 million, however, we cannot at this time reasonably project that amount.

We believe the funds we generate from operations along with the financing arrangements described above should allow us to continue our expansion plans and be sufficient for us to meet our operating requirements during the next twelve months. We may nevertheless, choose to raise additional funds or seek other financing arrangements to facilitate more rapid expansion, to develop new products at a faster pace, or to acquire or invest in complimentary businesses, technologies, services or products.

At September 30, 2004, we had approximately $11,500,000 in Federal net operating loss carryforwards ("NOLs") available to reduce future taxable income, subject to certain limitations. These NOLs could result in savings of approximately $4,150,000 in future income tax payments (although there will be no corresponding benefit on income tax expenses).

Accounts Receivable

Our accounts receivable at September 30, 2004 was $4,482,000 compared to $6,850,000 at June 30, 2004. This decrease is primarily attributable to a decrease in sales during the three-month period ended September 30, 2004 compared to the three-month period ended June 30, 2004. Our accounts receivable turnover ratio decreased 0.6 turns to 6.4 turns at September 30, 2004 from 7.0 turns at June 30, 2004. The quality of our accounts receivable is good, and as such we have encountered little or no bad debt exposure

Inventory

At September 30, 2004, our inventory was $5,861,000, an increase of $331,000 from $5,530,000 at June 30, 2004. Our inventory turnover ratio of 5.2 annualized turns at September 30, 2004 decreased when compared to June 30, 2004 - 6.2

average turns. We believe this to be within acceptable limits of our current operating plan.

Accounts Payable

The accounts payable, accrued expenses and other liabilities decreased by approximately $360,000 during the three month ended September 30, 2004 as compared to June 30, 2004.

Cash and Cash Equivalents

Cash and cash equivalents increased approximately $653,000 from $2,885,000 at June 30, 2004 to $3,538,000 at September 30, 2004. During the three months ended September 30, 2004, we funded our business from operations - net cash provided by operations was approximately $2,272,000. This was offset by acquisition of new property and equipment and other additions of $1,132,000 and repayment of various bank lines of credit and bank notes payable totaling approximately $487,000.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires that Interpharm make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. On an on-going basis, Interpharm evaluates judgments and estimates made, including those related to revenue recognition, inventories, income taxes and contingencies including litigation. Interpharm bases its judgments and estimates on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider the following accounting policies to be most critical in understanding the more complex judgments that are involved in preparing our financial statements and the uncertainties that could impact results of operations, financial condition and cash flows.

Revenue Recognition

Revenues from the sale of our products are recognized upon shipment of the product. Revenues are recorded net of provisions for rebates, charge-backs, discounts and returns, which are established at the time of sale. Estimates for rebates, charge-backs, and discounts are calculated based on actual experience and also cover chargebacks on sales to intermediary wholesale prime vendors for the supply of Ibuprofen to the Department of Veterans Affairs.

We purchase raw materials from suppliers, which is then used in the manufacturing of completed goods and sold back to the suppliers or by direct drop shipment to the supplier's customers. The raw materials are also used in the manufacturing of products for other customers.

We also (i) have the general inventory risk by taking title to all of the raw material purchased, (ii) establish the selling price for the finished product and, (iii) significantly change the raw materials into the finished product under our specifications and formulas. These factors among others, qualify us as the principal under the indicators set forth in EITF 99-19, Reporting Revenue Gross as a Principal vs. Net as an Agent. If the terms and substance of the arrangement change, such that we no longer qualify to report these transactions on a gross reporting basis, our net income and cash flows would not be affected. However, our sales and cost of sales would both be reduced by a similar amount.

Inventory

Our inventories are valued at the lower of cost or market determined on a first-in, first -out basis, and includes the cost of raw materials, labor and manufacturing overhwead. We continually evaluate the carrying value of our inventories and when factors such as expiration dates and spoilage indicate that impairment has occurred, either a reserve is established against the inventories' carrying value or the inventories are disposed of and completely written off in the period incurred.

Issues And Uncertainties

Risk of Product Liability Claims

The testing, manufacturing and marketing of pharmaceutical products subject us to the risk of product liability claims. We believe that we maintain an adequate amount of product liability insurance, but no assurance can be given that such insurance will cover all existing and future claims or that we will be able to maintain existing coverage or obtain additional coverage at reasonable rates.

ITEM 3 - Quantitative and Qualitative Disclosures About Market Risk

Our principal financial instrument currently is a $21.0 million credit facility. In June 2004 the Company took a $7.4 million mortgage note payable for the purchase of its second facilty,located in Brookhaven, New York, of which approximately $7.3 million was outstanding at September 30, 2004. Any obligations created under this credit facility incur interest calculated at our option at (i) LIBOR plus 1.5% for periods ranging in length from 3 to 36 months, or (ii) at the Bank's then fixed prime rate. As of September 30, 2004, the interest rates on the mortgage note payable was 3.2%. The Company's current rate is 3.66% and is fixed until February 2005. If our borrowings remained at the same amount as of September 30, 2004, for the remainder of our fiscal year, for every one percent change, upward or downward in our borrowing rate, we would incur or save approximately $73,000 respectively. The Company anticipates that during the next twelve months it will likely draw down from its existing credit facility primarily to purchase equipment for both facilities. This likely increase in our borrowings will increase our exposure to interest rate market risk. The Company is required to comply with certain financial covenants. The Bank will review the new credit facility annually; the next review is scheduled to occur no later than November 30, 2004. The credit lines are terminable by the Bank at any time as to undrawn amounts.

We do not use any derivative financial instruments to hedge our exposure to adverse fluctuations in interest rates, fluctuations in commodity prices or other market risks, nor do we invest in speculative financial instruments.

ITEM 4 - Controls and Procedures

Evaluation of Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

At the conclusion of the period ended September 30, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, Chief Financial Officer and General Counsel, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chairman and Chief Executive Officer, Chief Financial Officer and General Counsel concluded that our disclosure controls and procedures were effective in alerting them in a timely manner to information relating to the Company required to be disclosed in this report but adopted additional disclosure controls and procedures to improve the quality and timeliness of disclosure during our transition from a private to a public company.

On September 20, 2004, our independent registered accounting firm Marcum & Kliegman, LLP ("MK"), informed us and our Audit Committee of the Board of Directors that in connection with their audit of our financial results for the fiscal year ended June 30, 2004, MK had discovered a condition which they deemed to be a material weakness in our internal controls (as defined by standards established by the Public Company Accounting Oversight Board). MK noted the lack of adequate internal control / review procedures required to properly and timely record customer chargebacks. Management has informed MK and the Audit Committee that it has modified its internal control / review procedures in such a manner that it believes will prevent reoccurrences of this deficiency. The impact of the above condition was isolated to the fiscal quarter ended June 30, 2004, and did not affect the results of any prior period nor the current fiscal quarter ended September 30, 2004.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK

Certain statements in this Report, and the documents incorporated by reference herein, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause deviations in actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied. Such factors include but are not limited to: the difficulty in predicting the timing and outcome of legal proceedings, the difficulty of predicting the timing of U.S. Food and Drug Administration ("FDA") approvals; court and FDA decisions on exclusivity periods; competitor's ability to extend exclusivity periods past initial patent terms; market and customer acceptance and demand for our pharmaceutical products; our ability to market our products; the successful integration of acquired businesses and products into our operations; the use of estimates in the preparation of our financial statements; the impact of competitive products and pricing; the ability to develop and launch new products on a timely basis; the regulatory environment; fluctuations in operating results, including spending for research and development and sales and marketing activities; and, other risks detailed from time-to-time in our filings with the Securities and Exchange Commission.

The words "believe, expect, anticipate, intend and plan" and similar expressions identify forward-looking statements. These statements are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERPHARM HOLDINGS, INC.
(Registrant)

Date: November 15, 2004

By: /s/ George Aronson

George Aronson,
Chief Financial Officer
(Duly authorized to sign on behalf of registrant)

Exhibits

Number	Description
31.1	Certification of Dr. Maganlal K. Sutaria pursuant to Exchange Act Rules 13(a)-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;
31.2	Certification of George Aronson pursuant to Exchange Act Rules

	13(a)-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002;