

Edgar Filing: INTERPHARM HOLDINGS INC - Form 10-Q

INTERPHARM HOLDINGS INC  
Form 10-Q  
February 14, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----  
FORM 10-Q  
-----

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

For the Quarter Ended December 31, 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  NO

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

YES  NO

As of the close of business on February 11, 2005, there were 24,967,202 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

	December 31, 2004	June 30, 2004
	-----	-----
	(Unaudited)	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 598,122	\$ 2,884,639
Marketable securities, at fair market value	--	36,791
Accounts receivable, net	5,842,486	6,849,778
Inventories, net	7,276,029	5,530,161
Prepaid expenses and other current assets	669,446	453,157
Deferred tax assets	--	1,280,000
	-----	-----
Total Current Assets	14,386,083	17,034,526
Land, building and equipment, net	17,591,780	15,007,132
Deferred tax assets	3,599,000	2,902,000
Deposits	799,829	224,287
	-----	-----
TOTAL ASSETS	\$36,376,692	\$35,167,945
	=====	=====

See Notes To Condensed Consolidated Financial Statements.

### INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED BALANCE SHEETS

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LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2004	Jun 2
	----- (Unaudited)	-----
CURRENT LIABILITIES		
Current maturities of bank debt payable	\$ 1,870,000	\$
Accounts payable, accrued expenses, and other liabilities	3,987,897	4
	-----	-----
Total Current Liabilities	5,857,897	5
OTHER LIABILITIES		
Bank debt, less current maturities	6,875,833	7
	-----	-----
TOTAL LIABILITIES	12,733,730	12
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stocks, 10,000,000 shares authorized; issued and outstanding - 6,901,166 and 6,902,963, respectively; aggregate liquidation preference of \$5,485,095 and \$5,494,080, respectively	346,245	
Common stock, \$.01 par value, 70,000,000 shares authorized; shares issued - 25,591,347 and 25,591,311, respectively	255,913	
Additional paid-in capital	19,186,088	19
Accumulated other comprehensive loss	--	
Retained earnings	4,652,584	3
Treasury stock at cost, 624,145 shares	(797,868)	
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	23,642,962	22
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 36,376,692	\$ 35
	=====	=====

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 December 31,		Six Months En December	
	----- 2004 -----	----- 2003 -----	----- 2004 -----	----- 2003 -----
SALES, Net	\$8,838,067	\$11,706,231	\$17,891,199	\$1

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COST OF SALES (including related party rent expense of \$102,000 and \$204,000 for the three and six months ended December 31, 2004 and 2003, respectively)	6,244,565	9,087,956	13,357,593	1
	-----	-----	-----	---
GROSS PROFIT	2,593,502	2,618,275	4,533,606	
	-----	-----	-----	
OPERATING EXPENSES				
Selling, general and administrative expenses	1,226,339	860,060	2,313,012	
Related party rent expense	18,000	18,000	36,000	
Research and development	363,527	154,035	538,986	
	-----	-----	-----	
TOTAL OPERATING EXPENSES	1,607,866	1,032,095	2,887,998	
	-----	-----	-----	
OPERATING INCOME	985,636	1,586,180	1,645,608	
	-----	-----	-----	
OTHER INCOME (EXPENSE)				
Gain on sale of marketable securities	8,943	--	8,943	
Interest expense	(342)	(4,852)	(3,520)	
Interest income	--	2,446	--	
	-----	-----	-----	
TOTAL OTHER INCOME (EXPENSE)	8,601	(2,406)	5,423	
	-----	-----	-----	
INCOME BEFORE INCOME TAXES	994,237	1,583,774	1,651,031	

(Forward)

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 December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
	-----	-----	-----	-----
(Forward)				
PROVISION FOR INCOME TAXES	368,705	559,677	612,227	673,905
	-----	-----	-----	-----
NET INCOME	\$ 625,532	\$1,024,097	\$1,038,804	\$ 1,251,536
	=====	=====	=====	=====
EARNINGS PER SHARE				
Basic earnings per share	\$ 0.02	\$ 0.05	\$ 0.04	\$ 0.06

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Diluted earnings per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02
Basic weighted average shares outstanding	24,967,190	17,395,546	24,967,178	16,861,779
Diluted weighted average shares and equivalent shares outstanding	67,981,462	68,139,385	67,978,433	68,376,030

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(UNAUDITED)

FOR THE SIX MONTHS ENDED DECEMBER 31, 2004

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	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
Unrealized loss on marketable securities, net	--	--	--	--
Conversion of Series C convertible preferred stock to common stock	(1,797)	(1,797)	36	--
Dividends declared	--	--	--	--
Net income	--	--	--	--
BALANCE - December 31, 2004	6,901,166	\$ 346,245	25,591,347	\$ 255,913

Retained Earnings	Treasury Stock Shares	Amount	Total Stockholders' Equity

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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
Unrealized loss on marketable securities, net	--	--	--	(3,102)
Conversion of Series C convertible preferred stock to common stock	--	--	--	--
Dividends declared	(178,719)	--	--	(178,719)
Net income	625,532	--	--	625,532
	-----	-----	-----	-----
BALANCE - December 31, 2004	\$ 4,652,584	624,145	\$ (797,868)	\$ 23,642,962
	=====	=====	=====	=====

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
	-----	-----	-----	-----
NET INCOME	\$ 625,532	\$1,024,097	\$1,038,804	\$1,251,536
OTHER COMPREHENSIVE INCOME				
Unrealized (loss)/gain on marketable securities, net	(3,102)	11,557	92	12,737
	-----	-----	-----	-----
TOTAL COMPREHENSIVE INCOME	\$ 622,430	\$1,035,654	\$1,038,896	\$1,264,273
	=====	=====	=====	=====

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six Months December 2004 -----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 1,038,804 -----
Adjustment to reconcile net income to net cash provided by (used in) operating activities	
Gain on sale of marketable securities	(8,943)
Depreciation and amortization	557,397
Deferred tax expense	583,000
Tax expense in connection with exercise of employee stock options credited to additional paid-in-capital	--
Changes in operating assets and liabilities	
Accounts receivable	1,007,292
Inventories	(1,745,868)
Prepaid expenses and other current assets	(170,463)
Deposits	--
Accounts payable, accrued expenses and other liabilities	(751,136) -----
TOTAL ADJUSTMENTS	(528,721) -----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	510,083 -----
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from notes receivable	--
Purchases of building and equipment	(3,142,044)
Deposits	(575,542) -----
NET CASH USED IN INVESTING ACTIVITIES	(3,717,586) -----
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of bank line of credit	(424,847)
Borrowings from new bank lines of credit	1,500,000
Repayments of bank mortgage and notes payable	(154,167)
Cash received in reverse merger transaction	--
Proceeds from options and warrants exercised	-- -----
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 920,986 -----

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED), Continued

	Six Months Ended December 31,	
	2004	2003
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$(2,286,517)	\$ (832,267)
CASH AND CASH EQUIVALENTS - Beginning	2,884,639	2,336,203
CASH AND CASH EQUIVALENTS - Ending	\$ 598,122	\$ 1,503,936
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the periods for:		
Interest	\$ 105,098	\$ 10,999
	=====	=====
Income taxes	\$ 31,148	\$ 84,456
	=====	=====
Non-cash investing and financing activities:		
Conversion of Series J preferred stock to common stock	\$ --	\$ 1,050
	=====	=====
Conversion of Series C preferred stock to common stock	\$ 1,797	--
	=====	=====
Declaration of preferred dividend	\$ 178,719	--
	=====	=====
Valuation Adjustment related to reverse merger	\$ --	\$ 50,000
	=====	=====

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements (Unaudited)

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



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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 and six months ended December 31, 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.

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#### Capitalization of Interest and Other Costs

The Company capitalizes interest on borrowings and certain other direct costs 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 \$109,000 during the six month period ended December 31, 2004 in connection with its capital improvements to the Brookhaven, NY facility.

### NOTE 2 - Summary of Significant Accounting Policies, continued

#### Stock Based Compensation

At December 31, 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

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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 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
Net income, as reported	\$ 625,532	\$ 1,024,097	\$ 1,038,804	\$ 1,038,804
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of income tax	656,470	166,714	1,312,941	1,312,941
Pro forma net income (loss)	\$ (30,938)	\$ 857,383	\$ (274,137)	\$ 1,038,804
Basic net income (loss) per share				
As reported	\$ 0.02	\$ 0.05	\$ 0.04	\$ 0.04
Pro forma	\$ --	\$ 0.05	\$ (0.01)	\$ 0.04
Diluted net income (loss) per share				
As reported	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Pro forma	\$ --	\$ 0.01	\$ (0.01)	\$ 0.01

In December 2004, the FASB finalized SFAS No. 123R "Share-Based Payment" which will require the Company to expense stock options based on grant date fair value in its financial statements. The effect of expensing stock options on the Company's results of operations using a Black-Scholes option-pricing model is presented in the preceding pro forma table.

The fair values of Company common stock options granted to employees were

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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 2004 and 2003, respectively (2) risk-free interest rate of 4.25% and 3.4% for 2004 and 2003, respectively and (3) expected average lives of 10 and 5 years for 2004 and 2003, respectively.

### NOTE 2 - Summary of Significant Accounting Policies, continued

#### Reclassifications

Certain reclassifications have been made to the condensed consolidated financial statements for the prior period in order to have it conform to the current period's classifications. These reclassifications have no effect on previously reported net income.

#### Recently Issued Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period costs. The provisions of SFAS 151 are effective for the Company's fiscal year 2006. The Company is currently evaluating the provisions of SFAS 151 and does not expect adoption will have a material impact on its financial position, results of operations, or cash flows.

In December 2004, the FASB finalized SFAS 123R amending SFAS No. 123, effective beginning the first quarter of fiscal 2006. SFAS 123R will require the Company to expense stock options based on grant date fair value in its financial statements. Further, the adoption of SFAS 123R will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. The adoption of SFAS 123R will have no effect on the Company's cash flows, but is expected to have a material adverse impact on its results of operations.

In an effort to reduce the expected material adverse impact to be incurred in future periods as a result of adopting SFAS 123R, the Company has chosen to accelerate the vesting provisions of 1,192,000 options, which represents the total unvested options granted after May 30, 2003 through December 31, 2004. An aggregate of 1,000,000 such options were granted to executives of the Company. Since options granted on or prior to May 30, 2003 are not fully vested, the Company expects to record stock options expense commencing the first quarter of fiscal 2006.

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### NOTE 3 - Inventories

Inventories consist of the following:

	December 31, 2004	June 30, 2004
	-----	-----
Finished goods	\$ 193,778	\$ 534,175
Work in process	4,196,348	2,710,270
Raw materials	2,478,984	1,932,971
Packaging materials	406,919	352,745
	-----	-----
Total	\$7,276,029	\$5,530,161

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NOTE 4 - Land, Building and Equipment

Land, building and equipment consists of the following:

	December 31, 2004	June 30, 2004
	-----	-----
Land	\$ 4,924,000	\$ 4,924,000
Building, improvements and construction in progress (a)	5,897,281	4,475,482
Machinery and equipment	7,049,004	5,457,395
Furniture and fixtures	341,781	319,762
Leasehold improvements	2,729,820	2,623,203
	-----	-----
	20,941,886	17,799,842
Less: accumulated depreciation and amortization	3,350,106	2,792,710
	-----	-----
Land, Building and Equipment, net	\$17,591,780	\$15,007,132
	=====	=====

(a) Not yet been placed into service and no depreciation expense has yet been recorded

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NOTE 5 - Bank Debt

At December 31, 2004, the Company has \$1,500,000 outstanding under advised lines of credit. During the six month period ended December 31, 2004 the Company repaid approximately \$425,000 of various bank lines of credit, as well as \$154,000 of the mortgage note payable.

NOTE 6- Income Taxes

At December 31, 2004 the Company has remaining Federal net operating loss carryforwards ("NOLs") of approximately \$10,500,000 and State NOLs of approximately \$9,950,000 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 December 31, 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 six month period ended December 31, 2004, the Company applied an aggregate effective tax rate of approximately 37% thereby creating an approximate \$583,000 income tax expense and reduced its current deferred tax asset by a like amount. Additionally, the Company has reclassified the remaining balance of its

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current deferred tax asset to long term deferred tax asset.

NOTE 7- Earning Per Share

The calculations of basic and diluted EPS are as follows:

	Three Months Ended December 31,	
	2004	2003
	-----	-----
Numerator:		
Net income	\$ 625,532	\$ 1,024,
Less: Preferred stock dividends	41,392	41,
Less: Net income attributable to Series K preferred stockholders	38,414	103,
	-----	-----
Numerator for basic EPS	545,726	879,
Effect of dilutive securities:		
Net income attributable to Series K preferred Stockholders	38,414	103,
	-----	-----
Numerator for diluted EPS	\$ 584,140	\$ 982,
	=====	=====
Denominator:		
Denominator for basic EPS weighted average shares outstanding	24,967,190	17,395,
Effect of dilutive securities:		
Convertible Series K preferred stock	37,648,650	42,844,
Convertible Series A, B, C and J preferred stocks	7,402	7,
Stock options	5,358,220	7,892,
Denominator for diluted EPS	67,981,462	68,139,
Basic EPS	\$ 0.02	\$ 0
	=====	=====
Diluted EPS	\$ 0.01	\$ 0
	=====	=====

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NOTE 7 - Earning Per Share - Continued

As of December 31, 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 - December 31, 2004

24,967,202

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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	5,584
Series K - (b)	37,648,650
Total - (c)	78,013,643

- (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).

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### NOTE 8 - Equity Securities

Common Stock and Stock Options No Common Stock Options were granted during the three month period ending December 31, 2004. During the three month period ending 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.

In November, 2004, the Board of Directors, declared a dividend of \$178,719, in accordance with the terms set forth in the Series A-1 Cumulative Convertible Preferred stock ("A-1 shares"). The A-1 shares have a cumulative annual dividend of \$0.0341 per share. The declared dividend is cumulative through June 30, 2004, has not yet been paid and is included in Accounts payable, accrued expenses, and other liabilities as at December 31, 2004.

### NOTE 9 - Economic Dependency

#### Major Customers

The Company had the following customer concentrations for the three and six month periods ended December 31, 2004 and 2003:

Sales - Percent of Revenue			
Three Months		Six Months	
Ended December 31,		Ended December 31,	
-----		-----	
2004	2003	2004	2003

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Customer "A"	23%	35%	19%	33%
Customer "B"	21	23	27	25
Customer "C"	23	10	16	11

### Accounts Receivable

December 31, 2004

	-----
Customer "A"	\$ 1,781,000
Customer "B"	1,546,000
Customer "C"	950,000

The Company complies with its supply agreement to sell various strengths of Ibuprofen to the Department of Veteran Affairs through two intermediary wholesale prime vendors whose data are combined and reflected in Customer "C" above.

### Major Suppliers

For the three and six month periods ended December 31, 2004, the Company purchased materials from three suppliers totaling approximately 74% and 72% of purchases, respectively. For the three and six month periods ended December 31, 2003, the Company purchased materials from three suppliers totaling approximately 95% and 90%, respectively. At December 31, 2004 and 2003, aggregate amounts due to these suppliers included in accounts payable, were approximately \$2,051,000 and \$4,350,000 respectively.

### NOTE 10 - 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 than those for comparable facilities in the area.

Upon a change in control, as defined, 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.

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### NOTE 11 - 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.

### NOTE 12 - Subsequent Events

As described in Note 2 above, in January, 2005, the Board of Directors of the Company approved the decision to accelerate the vesting of all options granted after May 30, 2003 with exercise prices of greater than \$2.24 per

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option.

In January, 2005, the Board of Directors granted an aggregate 2,350,000 options to purchase shares of the Company's common stock, of which 2,075,000 are vested, 150,000 options vest 20 % on each June 30, 2006 through 2010 and 125,000 options will vest at conditions set forth by the Board of Directors in the future. All options, other than those which will have their vesting determined in the future, have an exercise price of \$2.24, which was the closing price of the Company's common stock on the date of the grant.

2,000,000 of the options were issued to the Company's Chief Executive Officer, Cameron Reid. Mr. Reid has agreed to a three year term of employment with the Company for a base salary of \$200,000 per year, which may be increased at the discretion of the Compensation Committee of the Company's Board of Directors

25,000 of the vested options were granted to the Company's Chief Financial Officer.

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### INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

#### 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.

##### RECENT DEVELOPMENTS

As further detailed in a Form 8-K filed with the Securities and Exchange Commission on January 31, 2005, Cameron Reid was appointed as our Chief Executive Officer. Mr. Reid, who had been serving on our Board of Directors since May, 2004, resigned his position on our Board to focus on his responsibilities as Chief Executive Officer. Mr. Reid has over twenty-five years of experience in the pharmaceutical business. From 1992 through March, 2004, Mr Reid served as President of Dr. Reddy's Laboratories, Inc. Mr. Reid was responsible for, and oversaw the building of its North American business, including all aspects of strategic planning and new product development.

Since joining our Board of Directors, Mr. Reid has conducted an evaluation of our business, and developed a business plan which includes capitalizing on our core competencies in the selection of new products as well as diversifying our



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product development into new areas. Under Mr. Reid's guidance, we were particularly active in planning for our future during the quarter ended December 31, 2004. During this period, we also focused on preparing for our future expansion and new product line development by acquiring new equipment and implementing infrastructure improvements and adding inventory control systems.

As Mr. Reid's strategic plan for our growth developed, we believed it would be best for him to be actively involved in the execution of the plan. Therefore, the Company and Mr. Reid agreed that Interpharm would best be in a position to implement his strategic plan if Mr. Reid were appointed to the position of Chief Executive Officer. We have already commenced development activities under Mr. Reid's leadership and believe that we can start marketing certain new products by the end of fiscal 2005.

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In an effort to reduce the expected material adverse impact to be incurred in future periods as a result of adopting SFAS 123R, the Company has chosen to accelerate the vesting provisions of 1,192,000 options, which represents the total unvested options granted after May 30, 2003 through December 31, 2004. An aggregate of 1,000,000 such options were granted to executives of the Company. Since options granted on or prior to May 30, 2003 are not fully vested, the Company expects to record stock options expense commencing the first quarter of fiscal 2006.

### RESULTS OF OPERATIONS

#### NET SALES BY PRODUCT (IN THOUSANDS OF DOLLARS):

	Three Months Ended December 31,				
	2004 Sales	% of Sales	2003 Sales	% of Sales	Variance \$
Ibuprofen	\$5,532	63	\$ 5,907	51	\$ (375)
Allopurinol & Atenolol	1,884	21	4,097	35	(2,213)
Naproxen	307	3	1,111	9	(804)
All Other Products	1,115	13	591	5	524
Total	\$8,838		\$11,706		\$(2,868)

	Six Months Ended December 31,				
	2004 Sales	% of Sales	2003 Sales	% of Sales	Variance \$
Ibuprofen	\$11,703	65	\$10,320	64	\$ 1,383
Allopurinol & Atenolol	3,201	18	5,863	26	(2,662)
Naproxen	803	5	1,535	6	(732)
All Other Products	2,184	12	864	4	1,320
Total	\$17,891		\$18,582		\$ (691)

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As indicated in the tables above, we encountered a net decrease in our revenue. Significant components include:

- o Both Allopurinol and Atenolol are manufactured for one customer based on quantities ordered by the customer. During the six months ended December 31, 2003 orders of Allopurinol and Atenolol were above normal quantities. We believe future quarterly net sales levels for Allopurinol and Atenolol will approximate net sales during the three month period ended December, 2004.
- o Net sales of Naproxen have been primarily to one customer. This customer during the three month period ended December 31, 2003 placed orders for nearly twice the amount ordered during the three month period ended September 30, 2003. We believe that future net sales of Naproxen should approximate the December 2004 levels for the quarter ending March 31, 2005. As a result of an expanded customer base for this product we anticipate that sales could increase during our fiscal fourth quarter of 2005, however there can be no assurances that orders will be received timely.
- o When comparing the six month period ended December 31, 2004 to the six month period ended December 31, 2003, there was a significant increase --13.4%-- in sales of Ibuprofen. However, the quarter ended December 31, 2004 witnessed a 6.3% decrease when compared to a year ago. Based upon an expanded customer base for Ibuprofen, we believe sales of Ibuprofen should increase during the balance of this fiscal year.
- o Since obtaining FDA approval, revenue for Reprexain(R) totaled over \$410,000.
- o During the three month period ended December 31, 2004, we shipped approximately \$670,000 of Hydrocodone-7.5 mg / Ibuprofen-200 mg. our generic version of Vicoprofen. This was our first quarter of shipments of the product. We do not believe future orders for this product will be as high because the results for the quarter included initial shipments, which tend to be greater than future replenishment orders. However, the results for the quarter ended December 31, 2004 do not include any additional revenue which may be derived from our profit sharing arrangement for this product which we anticipate will be included in the revenues for future periods.

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### GROSS PROFITS / COST OF SALES

Our total gross profit percentage for the three months ended December 31, 2004 was 29.3%, an increase of 6.9 percentage points compared to 22.4% for the three months ended December 31, 2003. This is as a result of the sale in the current quarter of one of our new products which we manufactured during the three month period ended March, 2004 for a potential new customer. The customer did not place an order timely, and we were unable to identify other potential customers. As such, we did not capitalize it as it became "short dated" inventory. Without such sale, which totaled approximately \$670,000, our gross profit for the three month period ended December 31, 2004 would have been approximately 21.7%, which would have been relatively consistent with recent prior periods. Our total gross profit percentage for the six months ended December 31, 2004 was 25.3%, an increase of 3.5 percentage points compared to 21.8% for the six months ended

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December 31, 2004.

During the six month period ended December 31, 2004, with respect to our primary products, raw material prices have remained relatively constant when compared to 2003. While no assurance can be given, we believe that our raw material costs should remain relatively constant to current prices at least through June 30, 2005. The remaining components of our cost of sales, primarily direct labor and overhead have, as a percentage of net sales, increased slightly during the three months ended December 31, 2004, primarily as a result of costs associated to training staff for the second facility which we anticipate will be operational in mid-2005.

### 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 \$366,000 to approximately \$1,226,000, or 13.9% of net sales during the three months ended December 31, 2004, from approximately \$860,000, or 7.3% of net sales, during the same period in 2003. The significant components of this increase are: salaries, including payroll taxes and benefits (\$91,000); legal and accounting costs of (\$89,000); investor and public relations costs (\$79,000); utilities (\$15,000); professional fees (\$30,000); travel expenses (\$26,000) and telephone, office and seminars (\$20,000).

Selling, general and administrative expenses increased approximately \$419,000 to approximately \$2,313,000, or 12.9% of net sales during the six months ended December 31, 2004, from approximately \$1,894,000, or 10.2% of net sales, during the same period in 2003. The significant components of this increase are: salaries, including payroll taxes and benefits (\$143,000); investor and public relations costs (\$117,000); utilities (\$51,000); professional fees (\$62,000); travel (\$22,000); freight (\$28,000); telephone, office and seminars (\$33,000); offset by reductions in our legal and accounting costs of \$44,000.

The increase in salaries, payroll taxes, benefits, professional fees and utilities are primarily attributable to our continuing overall corporate expansion. As relates to our investor and public relations costs increasing, we engaged a public relations firm during the three month period ended March 31, 2004. This action resulted in incurring expenses during the three and six month periods ended December 31, 2004 with little or no costs incurred during the same period in 2003. Additionally, during the three months ended December 31, 2004, we incurred costs associated to our annual meeting of stockholders which was held in November, 2004, while none the previous year. The increases in legal and accounting and professional fees witnessed during the three month period ended December 31, 2004 compared to the same period in the prior year are primarily attributable to added services which are consistent with our product line

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growth. However, for the six month period ended December 31, 2004 these costs are less than the same period in the prior year primarily as a result of significant legal, accounting and other professional costs incurred during the first half of the six month period ended December 31, 2003, as a result of the merger between ATEC Group, Inc. and Interpharm, Inc.

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**INCOME TAXES** The effective tax rate for the three and six month periods ended December 31, 2004 of approximately 37.1% resulted in aggregate income tax provisions of approximately \$369,000 and \$612,000, respectively, compared to effective aggregate tax rates of 35.3% and 35.0% for the three and six month periods ended December 31, 2003, respectively, which resulted in provisions for income taxes of approximately \$560,000 and 674,000, respectively. While we anticipate revenue to increase, we further believe that as a direct result of accelerating our aggressive product development program, we will likely incur increased research and development expenses which, in turn will cause us to delay utilization of the current portion of our deferred tax asset. As such, we have reclassified the balance of our current deferred tax asset amount of \$697,000 to long term deferred tax asset.

### LIQUIDITY AND CAPITAL RESOURCES

We currently finance our operations and capital expenditures through cash flows from operations and bank borrowings. Net cash provided by operating activities for the six month period ended December 31, 2004 was \$510,000 as compared to \$178,000 net cash used in operating activities for the same period last year. Net cash provided in 2004 was a result of non-cash operating items of \$1,131,000 added to net income of \$1,039,000 and a decrease in accounts receivable of \$1,007,000, offset by a decrease in accounts payable, accrued expenses and other liabilities of \$751,000, and increases in inventories and prepaid expenses and other current assets of \$1,746,000 and \$170,000, respectively.

Net cash provided by financing activities of \$921,000 for the six months ended December 31, 2004, was a result of drawing upon \$1,500,000 in available lines of credit offset by the pay down of a mortgage loan of \$154,000 and working capital lines of credit by \$425,000.

A component of our current plan is the expansion of the production capacity at our current facility as well as erecting a second facility. Consistent with our expansion plans, during the six month period ended December 31, 2004, we disbursed \$3,142,000 for new equipment, furniture and improvements. In addition to which we have outlaid \$576,000 for deposits toward additional assets. As such in the aggregate we used \$3,718,000 in investing activities during the six months ended December 31, 2004.

As discussed in previous filings, we obtained a \$21,000,000 credit facility which consisted of:

- o a \$7,400,000 mortgage loan used for the purchase of the second facility. 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. As of December 31, 2004 the total amount remaining is \$7,245,000
  - o 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.
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- o 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.
  - o a \$5,000,000 advised line of credit primarily for working capital and general corporate purposes. As of December 31, 2004, we have drawn down

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\$1,500,000. Subsequent to year end and as of the filing date we borrowed an additional \$1,500,000. These subsequent borrowings are principally to replenish funds for equipment and renovations paid for from cash flows. Each borrowing is a 90 day loan at LIBOR plus 150 basis points. Interest rates average 3.94%.

At our option, interest will 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 December 31, 2004, the interest rate on the mortgage note payable ranged from 3.66% to 3.94%. In addition, we are required to comply with certain financial covenants. As of December 31, 2004, we were in compliance with all covenants. The Bank reviews the credit facility annually. 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.

Working capital decreased \$3,182,000 to \$8,528,000 from \$11,710,000 at June 30, 2004. Significant factors which contributed to the decrease are decreases in cash and net accounts receivable, utilizing \$583,000 of our current deferred tax asset and reclassifying \$697,000 to long term, and borrowing \$1,500,000 from our credit facility, offset by an increase in inventory. As previously discussed, we disbursed in excess of \$3,718,000 for purchases of additional building and equipment and deposits on equipment. Our inventory levels at December 31, 2004 increased when compared to previous levels. This is primarily as a result of production for future sales.

Future cash flows could be aided by our Federal net operating loss carryforwards ("NOLs"). At December 31, 2004, we had approximately \$10,500,000 NOLs available to reduce future taxable income, subject to certain limitations. At current effective tax rates, these NOLs could result in savings of approximately \$3,600,000 in future income tax payments (although there will be no corresponding benefit on income tax expenses). Further, utilization of these NOLs is limited to approximately \$2,690,000 per year, plus any prior years' amount not utilized, if any.

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.

### ACCOUNTS RECEIVABLE

Our accounts receivable at December 31, 2004 was \$5,842,000 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 December 31, 2004 compared to the three month period ended June 30, 2004. Our accounts receivable turnover ratio decreased 1.4 turns to 5.6 turns at December 31, 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.

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### INVENTORY

At December 31, 2004, our inventory was \$7,276,000, an increase of \$1,746,000 from \$5,530,000 at June 30, 2004. Our inventory turnover ratio of 4.2 annualized turns at December 31, 2004 decreased when compared to June 30, 2004 - 6.2 average turns. The drop in turnover ratio to slightly over four turns, is primarily as a result of two factors: the manufacture of product for which the

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company was to receive orders during the three month period ended December 31, 2004, which did not arrive until the first calendar quarter of 2005, and a planned build-up of inventory in certain key products. As such, we believe the reduction in annual turns as at December 31, 2004, to be within acceptable limits of our current operating plan.

### ACCOUNTS PAYABLE

The accounts payable, accrued expenses and other liabilities decreased by approximately \$572,000 during the six month ended December 31, 2004 as compared to June 30, 2004.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased during the six months ended December 31, 2004 by approximately \$2,287,000 from \$2,885,000 at June 30, 2004 to \$598,000 at December 31, 2004. We funded our business from operations and bank borrowings: net cash provided by operations - \$510,000; bank borrowings - net \$921,000. These were offset by acquisition of new property and equipment and other additions of \$3,718,000.

### 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

Revenue from the sale of our products are recognized upon shipment of the product. Revenue is 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,

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(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 overhead. 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.

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### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal financial instrument currently is a \$21.0 million credit facility. In June 2004 we took a \$7,400,000 mortgage note payable for the purchase of its second facility, located in Brookhaven, New York, of which approximately \$7,245,000 was outstanding at December 31, 2004. Additionally, as at December 31, 2004, we borrowed \$1,500,000. 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 December 31, 2004, the interest rates on the mortgage note payable was 3.66% and 3.94% the average interest rate for the \$1,500,000 borrowings was 3.94%. If our combined borrowings remained at the same amount as of December 31, 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 \$22,000 per quarter. We anticipate that during the next twelve months we will likely draw down additional funds from the existing credit facility primarily to purchase equipment for both facilities, as well as implement our research and development plan. This likely increase in our borrowings will increase our exposure to interest rate market risk. We are required to comply with certain financial covenants. The Bank reviews the credit facility annually. 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

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### 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 three and six month period ended December 31, 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 three and six month period ended December 31, 2004.

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### PART II - OTHER INFORMATION

- |         |  |
|---------|--|
| Item 1. | Legal Proceedings<br>None  |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds<br>None  |
| Item 3. | Defaults Upon Senior Securities<br>None  |
| Item 4. | Submission of Matters to a Vote of Security Holders<br><br>The Company held its annual meeting of stockholders on November 18, 2004, at the offices of the American Stock Exchange.<br><br>1. The stockholders of the Company voted to elect six members to the Board of Directors to serve until their respective |



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successors are elected. The results of the vote are:

	For ---	Against -----	Abstain -----
Dr. Maganlal K. Sutaria	23,463,714	21,079	84,807
David Reback	23,482,393	2,400	84,807
Stuart H. Benjamin	23,480,088	4,705	84,807
Dr. Mark Goodman	23,481,093	3,700	84,807
Cameron Reid	23,478,038	6,755	84,807
Kennith Johnson	23,482,793	2,000	84,807

2. The stockholders also voted ratify and approve Marcum & Kliegman, LLP, as our independent public accountants, to audit our financial statements for the fiscal year ending June 30, 2005. The result of the vote was:

For ---	Against -----	Abstain -----
23,491,663	47,386	30,551

3. The stockholders voted to approve stock option grants. The result of the vote was:

For ---	Against -----	Abstain -----
15,030,716	429,398	27,119

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Item 5. Other Information  
None

Item 6. Exhibits  
(a) Exhibits

31.1- Certification of Chief Executive Officer pursuant to Rules 13a-14(a) as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2- Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) as adopted, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1- Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted, pursuant to Section 906 of the Sabanes-Oxley Act of 2002.

(b) Reports on Form 8-k

1. Form 8-K filed on October 20, 2004 - Item 8.01 - Other Events. On October 18, 2004, Surinder Rametra, a Company Director and its Director of Business Development, and James Charles, a Director of the Company, resigned their directorships. Mr. Rametra resigned his directorship in order to enable him to focus solely on his

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responsibilities as Director of Business Development of the Company. Mr. Charles resigned in order to pursue other interests. Neither Mr. Rametra nor Mr. Charles resigned as a result of any disagreement with the Company on any matter, including any matter related to the operations, policies or practices of the Company.

2. Form 8-k filed on November 24, 2004 - Item 5.02 Departure of Directors or Principal Officers; Appointment of Principal Officers. - Announced the appointment of Raj Sutaria as the Company's Chief Operating Officer.

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### 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.

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### 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.

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INTERPHARM HOLDINGS, INC.  
(Registrant)

Date: February 14, 2005

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

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EXHIBITS

NUMBER	DESCRIPTION
31.1	Certification of Cameron Reid 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;