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INTERPHARM HOLDINGS INC
Form 10-Q
May 17, 2004

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 March 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 [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 May 14, 2004, there were 18,662,391 shares of the Registrant's Common Stock outstanding.

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INTERPHARM HOLDINGS, INC.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	ASSETS	
	March 31, 2004	June 30, 2003
	-----	-----
	(Unaudited)	(Audited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,770,650	\$ 2,336,203
Marketable securities, at fair market value	50,388	48,462
Accounts receivable, net	7,909,313	4,930,109
Notes receivable, current	--	1,000,000
Inventories	6,061,575	4,583,205
Prepaid expenses and other current assets	401,565	224,149

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Deferred tax assets	23,500	23,500
	-----	-----
Total Current Assets	16,216,991	13,145,628
Property and equipment, net	5,624,113	4,085,302
Notes receivable, long-term	--	524,092
Deferred tax assets	2,537,900	2,537,900
Deposits	1,069,279	45,873
	-----	-----
TOTAL ASSETS	\$25,448,283	\$20,338,795
	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2004	June 30, 2003
	-----	-----
	(Unaudited)	(Audited)
CURRENT LIABILITIES		
Lines of credit, bank	\$ 424,847	\$ 2,064,793
Current maturities of bank notes payable	--	224,241
Accounts payable, accrued expenses, and other liabilities	5,497,341	5,314,341
	-----	-----
Total Current Liabilities	5,922,188	7,603,375
	-----	-----
OTHER LIABILITIES		
Bank notes payable, less current maturities	--	237,521
Other liabilities	29,535	29,535
	-----	-----
Total Other Liabilities	29,535	267,056
	-----	-----
TOTAL LIABILITIES	5,951,723	7,870,431

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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stocks, 10,000,000 shares authorized; issued and outstanding - 7,195,876 and 7,300,876, respectively; aggregate liquidation preference of \$5,494,080	350,971	352,021
Common stock, \$.01 par value, 70,000,000 shares authorized; shares issued - 19,286,536 and 15,671,649, respectively	192,865	156,717
Additional paid-in capital	16,832,343	12,076,237
Accumulated other comprehensive income	13,505	11,579
Retained earnings	2,904,744	669,678
Treasury stock at cost, 624,145 shares at March 31, 2004 and June 30, 2003	(797,868)	(797,868)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	19,496,560	12,468,364
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 25,448,283	\$ 20,338,795
	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INTERPHARM HOLDINGS, INC.

CONDENSED CONSOLIDATED STA

	For The Three Months Ended March 31,		For The Ended
	2004	2003	2004
	-----	-----	-----
SALES, Net	\$ 11,307,974	\$ 7,191,002	\$29,889,553
COST OF SALES (including related party rent expense of \$102,000 and \$306,000 for the three months and nine months ended March 31, 2004 and 2003, respectively)	8,492,823	5,824,712	23,024,297
	-----	-----	-----

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GROSS PROFIT	2,815,151	1,366,290	6,865,256
<hr/>			
OPERATING EXPENSES			
Selling, general and administrative expenses	1,165,945	502,552	3,059,780
Related party rent expense	18,000	18,000	54,000
Research and development	80,535	43,450	269,570
<hr/>			
TOTAL OPERATING EXPENSES	1,264,480	564,002	3,383,350
<hr/>			
OPERATING INCOME	1,550,671	802,288	3,481,906
<hr/>			
OTHER INCOME (EXPENSES)			
Related party interest expense	--	(40,812)	--
Gain on sale of property and equipment	2,554	--	2,554
Interest expense	(5,483)	(28,451)	(16,482)
Interest income	11,208	--	16,413
<hr/>			
TOTAL OTHER INCOME (EXPENSES)	8,279	(69,263)	2,485
<hr/>			

SEE NOTES TO CONDENSED CONSOLIDATED FIN

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For The Three Months Ended March 31,		For The Nine Months Ended March 31,	
	2004	2003	2004	2003
	<hr/>			
(Forward)				
INCOME BEFORE INCOME TAXES	1,558,950	733,025	3,484,391	1,358,400
PROVISION FOR INCOME TAXES	575,420	252,450	1,249,325	438,300
	<hr/>			
NET INCOME	\$ 983,530	\$ 480,575	\$ 2,235,066	\$ 920,100
	<hr/>			
EARNINGS PER SHARE				

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Basic earnings per share	\$ 0.05	\$ 0.06	\$ 0.11	\$ 0.
Diluted earnings per share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.
Basic weighted average shares outstanding	18,457,790	6,151,178	17,389,913	6,151,1
Diluted weighted average shares and equivalent shares outstanding	69,336,012	35,935,062	68,692,068	35,935,0

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INTERPHARM HOLDINGS
CONDENSED CONSOLIDATED STATEMENT OF

For the Nine Months

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Addition Paid-In Capital
	-----	-----	-----	-----	-----
BALANCE - July 1, 2003	7,300,876	\$ 352,021	15,671,649	\$ 156,717	\$ 12,076,
Shares issued for options and warrants exercised	--	--	2,241,382	22,414	2,676,
Conversion of series J convertible preferred stock to common stock	(105,000)	(1,050)	105,000	1,050	--
Valuation adjustments related to Reverse merger	--	--	--	--	53,
Tax expense in connection with exercise of Employee stock options	--	--	--	--	120,
Unrealized gain on marketable securities, net	--	--	--	--	--

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Net income	-----	-----	-----	-----	-----
BALANCE - September 30, 2003	7,195,876	\$ 350,971	18,018,031	\$ 180,181	\$ 14,926,
Valuation adjustments related to Reverse merger	--	--	--	--	10,
Shares issued for options and warrants exercised	--	--	4,927	49	
Tax expense in connection with exercise of Employee stock options	--	--	--	--	545,
Unrealized gain on marketable securities, net	--	--	--	--	--
Net income	-----	-----	-----	-----	-----
BALANCE - December 31, 2003	<u>7,195,876</u>	<u>\$ 350,971</u>	<u>18,022,958</u>	<u>\$ 180,230</u>	<u>\$ 15,481,</u>

	Retained Earnings -----	Treasury Stock Shares -----	Stock Amount -----	Total Stockholders' Equity -----
BALANCE - July 1, 2003	\$ 669,678	624,145	\$ (797,868)	\$ 12,468,364
Shares issued for options and warrants exercised	--	--	--	2,698,764
Conversion of series J convertible preferred stock to common stock	--	--	--	--
Valuation adjustments related to Reverse merger	--	--	--	53,791
Tax expense in connection with exercise of Employee stock options	--	--	--	120,000
Unrealized gain on				

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marketable securities, net	--	--	--	1,180
Net income	227,439	--	--	227,439
	-----	-----	-----	-----
BALANCE -				
September 30, 2003	\$ 897,117	624,145	\$ (797,868)	\$ 15,569,538
Valuation adjustments related to Reverse merger	--	--	--	10,238
Shares issued for options and warrants exercised	--	--	--	--
Tax expense in connection with exercise of Employee stock options	--	--	--	545,000
Unrealized gain on marketable securities, net	--	--	--	11,557
Net income	1,024,097	--	--	1,024,097
	-----	-----	-----	-----
BALANCE -				
December 31, 2003	\$ 1,921,214	624,145	\$ (797,868)	\$ 17,160,430
	=====	=====	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INTERPHARM HOLDINGS INC
CONDENSED CONSOLIDATED STATEMENTS

For the Nine Months Ended

	Preferred Stock		Common Stock		Additional Paid-In Capital
	Shares	Amount	Shares	Amount	
	-----	-----	-----	-----	-----
BALANCE -					

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December 31, 2003	7,195,876	\$ 350,971	18,022,958	\$ 180,230	\$ 15,481,567
Shares issued for options and warrants exercised	--	--	1,259,578	12,595	796,816
Tax expense in connection with exercise of Employee stock Options	--	--	--	--	554,000
Settlement shares	--	--	4,000	40	(40)
Unrealized loss on marketable securities, net	--	--	--	--	--
Net income	--	--	--	--	--
BALANCE -					
March 31, 2004	<u>7,195,876</u>	<u>\$ 350,971</u>	<u>19,286,536</u>	<u>\$ 192,865</u>	<u>\$ 16,832,343</u>

	Treasury Stock Shares	Amount	Total Stockholders' Equity
	-----	-----	-----
December 31, 2003	624,145	(\$ 797,868)	\$ 17,160,430
Shares issued for options and warrants exercised	--	--	809,411
Tax expense in connection with exercise of Employee stock Options	--	--	554,000
Settlement shares	--	--	0
Unrealized loss on marketable securities, net	--	--	(10,811)
Net income	--	--	983,530
BALANCE -			
March 31, 2004	<u>624,145</u>	<u>(\$ 797,868)</u>	<u>\$ 19,496,560</u>

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 March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
NET INCOME	\$ 983,530	\$ 480,575	\$2,235,066	\$ 920,192
OTHER COMPREHENSIVE INCOME				
Unrealized (loss) gain on marketable securities, net	(10,811)	5,335	1,926	4,992
 TOTAL COMPREHENSIVE INCOME	 \$ 972,719 =====	 \$ 485,910 =====	 \$2,236,992 =====	 \$ 925,184 =====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended March 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 2,235,066	\$ 920,192
Adjustment to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization	643,273	426,181
Gain on sales of property and equipment	(2,554)	--
Deferred tax expense	--	28,500

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Tax expense in connection with exercise of employee stock options credited to additional paid-in-capital	1,219,000	--
Changes in operating assets and liabilities		
Accounts receivable	(2,979,204)	(728,785)
Inventories	(1,478,370)	(653,118)
Prepaid expenses and other current assets	(177,416)	73,001
Deposits	(98,406)	--
Accounts payable, accrued expenses and other liabilities	183,001	189,014
	-----	-----
TOTAL ADJUSTMENTS	(2,690,676)	(665,207)
	-----	-----
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(455,610)	254,985
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from notes receivable	1,524,092	--
Deposit on new building	(925,000)	--
Proceeds from sale of property and equipment	19,000	--
Purchases of property and equipment	(2,198,531)	(638,944)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(1,580,439)	(638,944)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in line of credit, bank	(1,639,946)	1,099,999
Repayments of bank notes payable	(461,762)	(188,545)
Due to related parties	--	(648,846)
Deferred acquisition costs	--	(103,564)
Cash received in reverse merger transaction	64,029	--
Proceeds from option exercise	3,508,175	--
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 1,470,496	\$ 159,044
	-----	-----

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED), Continued

Nine Months Ended
March 31,
2004 2003

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	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (565,553)	\$ (224,915)
CASH AND CASH EQUIVALENTS - Beginning	2,336,203	443,612
	-----	-----
CASH AND CASH EQUIVALENTS - Ending	\$ 1,770,650	\$ 218,697
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the periods for:

Interest	\$ 16,482	\$ 530,845
Income taxes	\$ 99,054	\$ 476,235

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

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 and nine months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2004. See Note 2, Change of Fiscal Year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Transition Report on Form 10-K for the six month transition period ended June 30, 2003.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Interpharm Holdings, Inc. through its wholly-owned subsidiary,

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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.

REVERSE MERGER

On May 30, 2003, Interpharm, Inc. was acquired by ATEC Group, Inc. ("ATEC"), which simultaneously changed its name to Interpharm Holdings, Inc. In this transaction, ATEC acquired all of the issued and outstanding shares of Interpharm, Inc. in exchange for both ATEC common stock and Series K Convertible Preferred Stock, which totaled approximately 48% of ATEC's voting securities after the transaction was consummated.

ATEC issued to the stockholders of Interpharm, Inc. a total of 6,151,178 shares of common stock and 2,050,393 shares of Series K Convertible Preferred Stock in exchange for all outstanding shares of Interpharm, Inc. In addition, Interpharm, Inc. assumed the equity structure of ATEC, which comprised of 9,495,471 shares of common stock, less 624,145 shares of treasury stock and four classes of preferred stock totaling 395,094 shares.

CHANGE OF FISCAL YEAR

The Company has changed its fiscal year end from December 31 to June 30. A Transition Report on Form 10-K was filed for the six month transition period ended June 30, 2003.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

The effect of the recapitalization of Interpharm, Inc. has been given retroactive application in the earnings per share calculation. The common stock issued and outstanding with respect to the pre-merger ATEC Group, Inc. has been included since the effective date of the reverse merger. The Company has used the two-class method to calculate the effect of the participating Series K Convertible Preferred Stock on the calculation of Basic EPS. The if-converted method has been used to calculate the effect of the participating Series K Convertible Preferred Stock on diluted EPS.

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

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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.

STOCK BASED COMPENSATION

At March 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 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:

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

STOCK BASED COMPENSATION

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
Net income, as reported	\$ 983,530	\$ 480,575	\$ 2,235,066	\$ 920,192
Less: Stock-based employee compensation expense determined under fair value-based method for all awards	212,550		545,977	--
Pro forma net income	\$ 770,980	\$ 480,575	\$ 1,689,089	\$ 920,192

Basic net income per share

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As reported	\$ 0.05	\$ 0.06	\$ 0.11	\$ 0.11
	=====	=====	=====	=====
Pro forma	\$ 0.04	\$ 0.06	\$ 0.08	\$ 0.11
	=====	=====	=====	=====
Diluted net income per share				
As reported	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03
	=====	=====	=====	=====
Pro forma	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.03
	=====	=====	=====	=====

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 124%, (2) risk-free interest rate of 3.4% and (3) expected average lives of 5 years.

The Company granted 415,000 options during the Quarter ended March 31, 2004. The fair value of the options were \$3.70 per share.

NOTE 3 - INVENTORIES

Inventories consist of the following:

	March 31, 2004	June 30, 2003
	-----	-----
Finished goods	\$ 356,303	\$ 347,189
Work in process	2,574,418	2,227,139
Raw materials	2,839,280	1,733,109
Packaging materials	291,574	275,768
	-----	-----
Total	\$6,061,575	\$4,583,205
	=====	=====

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 4 - NOTES RECEIVABLE

Two notes receivable acquired as part of the reverse merger (Note 2) with an aggregate amount of \$1,524,092 were repaid in full during the three months ended September 30, 2003.

NOTE 5 - PROPERTY AND EQUIPMENT

During November 2003, the Company entered into an agreement to acquire an existing facility of approximately 92,000 square feet on approximately thirty-seven acres in Yaphank, NY. The purchase price for the building

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and land is \$9,250,000, of which \$925,000 has been paid as a deposit. The Company anticipates completing the transaction sometime during quarter ending June 30, 2004.

NOTE 6 - BANK DEBT

The Company had a credit facility agreement with a Bank, which consisted of an advised secured line of credit totaling \$5,000,000 and a \$2,000,000 non-revolving secured facility for equipment purchases. Borrowings under this credit facility were collateralized by substantially all assets of the Company and personally guaranteed by four of the Company's stockholders. In addition, the Company was required to comply with certain financial covenants. As of March 31, 2004, the Company had outstanding borrowings of \$424,847 under the line of credit, which will be repaid under the new credit facility discussed below.

On March 29, 2004, the Company obtained a \$21 million credit facility from the same Bank. The new credit facility consists of approval of a \$7.4 million mortgage loan, which is subject to customary closing conditions, for the purchase of the Company's second manufacturing plant in Yaphank, NY (Note 5). In addition, the credit facility consists of \$8.6 of credit lines primarily to acquire new equipment and for renovations, and a \$5 million general line of credit. This credit facility replaces the \$7 million credit facility discussed above. Details of the new facility are as follows:

- o The \$7,400,000 mortgage loan is to be repaid with 119 monthly installments, based upon an amortization schedule of twenty years, and a balloon payment due in ten years for the balance.
- 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.
- 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 The \$5,000,000 advised line of credit is primarily for working capital and general corporate purposes.

This new credit facility will be collateralized by substantially all assets of the Company and will no longer require the personal guarantees of four of the Company's stockholders. At the option of the Company, interest will generally be calculated at (i) LIBOR plus 1.5% for 3 to 36 month periods, or (ii) at the Bank's then fixed prime rate. In addition, the Company will be 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.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 7 - INCOME TAXES

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As part of the reverse merger transaction (Note 2), approximately \$7,680,000 of ATEC's Federal net operating loss carryforwards ("NOLs") became utilizable by the Company. During the nine month period ended March 31, 2004, stock options were exercised which generated approximately \$10,000,000 of additional NOLs (Note 9). Of this amount, approximately \$3,700,000 was utilized as a deduction for tax purposes during the nine months ended March 31, 2004, resulting in a cash benefit of \$1,219,000. The financial statement tax benefit of the deduction for the exercise of these employee stock options are credited to additional paid-in capital in the period that such tax benefit is recognized for financial statement purposes. At March 31, 2004 the Company has remaining NOLs of approximately \$14,000,000 to reduce future taxable income. These losses expire through 2024 and could become subject to substantial limitations pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 8 - EARNING PER SHARE

The calculations of basic and diluted EPS are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
Numerator:				
Net income	\$ 983,530	\$ 480,575	\$ 2,235,065	\$ 920,192
Less: Preferred stock dividends	41,392	--	124,176	--
Less: Net income attributable to Series K preferred stockholders	93,264	120,144	208,960	230,048
Numerator for basic EPS	848,874	360,431	1,901,929	690,144
Effect of dilutive securities:				

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Net income attributable to Series K preferred stockholders	93,264	120,144	208,096	230,048
	-----	-----	-----	-----
Numerator for diluted EPS	\$ 942,138	\$ 480,575	\$ 2,110,025	\$ 920,192
	=====	=====	=====	=====
Denominator:				
Denominator for basic EPS				
Weighted average shares outstanding	18,457,790	6,151,178	17,389,913	6,151,178
Effect of dilutive securities:				
Convertible Series K preferred stock	43,779,647	29,783,884	43,102,897	29,783,884
Convertible Series A, B, C and J preferred stocks	7,438	--	12,783	--
Stock options	7,091,137	--	8,186,475	--
	-----	-----	-----	-----
Denominator for diluted EPS	69,336,012	35,935,062	68,692,068	35,935,062
	=====	=====	=====	=====
Basic EPS	\$ 0.05	\$ 0.06	\$ 0.11	\$ 0.11
	=====	=====	=====	=====
Diluted EPS	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03
	=====	=====	=====	=====

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 8 - EARNING PER SHARE, continued

As of May 13, 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 - March 31, 2004	18,662,391
Stock options and Warrants outstanding - May 13, 2004	9,490,000
Common stock issuable upon conversion of preferred stocks:	
Series A	1,526
Series A-1 (maximum contingent conversion)	4,855,389
Series B	292
Series C	5,620
Series K (maximum contingent conversion)	43,923,426

	76,938,644
	=====

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NOTE 9 - EQUITY SECURITIES

PREFERRED STOCKS

The Company's preferred stocks consist of the following at March 31, 2004:

	Shares Authorized	Shares Issued and Outstanding	Par Value
Preferred Stocks:			
*Series A cumulative			
Convertible	29,233	7,631	\$ 763
Series A-1 cumulative			
Convertible	5,000,000	4,855,389	48,554
*Series B convertible	12,704	1,458	145
*Series C convertible	350,000	281,005	281,005
*Series J convertible	105,000	--	--
Series K convertible	3,000,000	2,050,393	20,504
	-----	-----	-----
Total preferred	8,496,937	7,195,876	\$350,971
	=====	=====	=====

* Classes of preferred stock assumed in the ATEC reverse merger.

PREFERRED STOCKS,

At March 31, 2004, the Company had six authorized series of preferred stock; Series A Cumulative Convertible (par value \$.10), Series A-1 Cumulative convertible (par value \$.01), Series B Convertible (par value \$.10), Series C Convertible (par value \$1), Series J Convertible (par value

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 9 - EQUITY SECURITIES

PREFERRED STOCKS, CONTINUED

\$.01) and Series K Convertible (par value \$.01) (hereafter referred to as the "A", "A-1", "B", "C", "J" and "K" shares, respectively).

The A shares have an annual dividend rate of 10% of the par value, which is cumulative. They are senior to all other series or classes of capital stock. The B shares have a non-cumulative stated annual dividend rate of \$1 each and are senior to all but the rights of the A stockholders. The C and J shares have no dividend rights, except as may be authorized at the sole discretion of the Company's Board of Directors. The K shares are

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entitled to receive dividends to the same extent and in the same amounts as the common stock. The A-1 shares have a cumulative annual dividend of \$.0341 per share when and as declared by the Board of Directors. At March 31, 2004, dividends accumulated, but not declared, were approximately \$138,000.

Each of the A, B, C and K shares has the right to one vote on all matters in which stockholders are entitled to vote. The holders of Series A-1 and J shares shall not be entitled to any voting rights. Each of the A, B, C and A-1 shares carry dissolution rights upon liquidation amounting to \$100, \$10, \$5 and \$.682 per share, respectively. The A shares grant the Company the right to redeem such shares at a price of \$100 per share. The A, B and C shares may be converted into shares of common stock at an exchange rate of five, five and fifty shares, respectively, for each share of common stock or approximately 7,438 shares. The conversion rights of the J, K and A-1 shares are described below.

During the three month period ended September 30, 2003, 105,000 of the J shares, representing all of the issued and outstanding J shares, automatically converted into 105,000 shares of the Company's common stock. These shares were automatically converted pursuant a mandatory conversion provision of J shares which the Company triggered when its common stock had a closing price of five dollars for three consecutive days.

The K shares are convertible into shares of common stock, no sooner than May 30, 2004, upon the happening of any of the following events (the "Triggering Events"): (i) the Company is deemed by AMEX to be in compliance with applicable listing standards; (ii) deemed by another exchange to be in compliance with its applicable listing standards in the event the Company's securities are listed on such exchange; or (iii) the Company is no longer listed on AMEX, the NASDAQ National Market or Small Cap Market, or the New York Stock Exchange. Upon the occurrence of any of the above Triggering Events, the K shares become convertible into an aggregate total number of shares of common stock in accordance with a defined formula, which assumes the conversion of the A, B, C and J shares into common stock. The net effect of the conversion feature, which has been deemed to be a contingent event, together with the shares of common stock issued in the reverse merger, would be to issue to Interpharm, Inc. stockholders, common stock totaling approximately 80% of the total number of shares of common stock and voting convertible preferred stock, outstanding as of the date of the Triggering Event, after giving effect to the conversion, less shares of common stock which may be issued between the date of the closing of the reverse merger and the date of the Triggering Event arising out of obligations which arose after the date of closing.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTE 9 - EQUITY SECURITIES, continued

PREFERRED STOCKS, continued

The A-1 shares convert on a 1:1 basis into Company common stock subject to the definitive terms in the list of designations upon (i) the Company reaching \$150 million in sales or (ii) a merger, consolidation, sale of assets or similar transaction.

COMMON STOCK AND STOCK OPTIONS

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During the three months ended September 30, 2003, 2,241,382 options and warrants were exercised generating cash proceeds to the Company of approximately \$2,700,000, and resulted in tax deductions allowed for employee stock options approximating \$9,000,000.

During the three months ended December 31, 2003, 8,750 options were exercised on a cashless basis resulting in a net stock issuance of 4,927 shares.

During the three months ended March 31, 2004, 1,259,578 options were exercised generating cash proceeds to the Company of approximately \$800,000, and resulted in additional tax deductions of approximately \$1,000,000.

During the three months ended March 31, 2004, the Company issued an aggregate of 415,000 options to four employees. Vesting is 20% on each December 31, 2004 through 2008, with an exercise price of \$4.41.

NOTE 10 - ECONOMIC DEPENDENCY

MAJOR CUSTOMERS

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

	Sales - Percent of Revenue			
	Three Months Ended March 31,		Nine Month Ended March 31,	
	2004	2003	2004	2003
Customer "A"	24%	2%	29%	3%
Customer "B"	35%	38%	29%	45%
Customer "C"	8%	11%	10%	9%

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

Note 10- ECONOMIC DEPENDENCY - continued

Accounts Receivable

	March 31,	
	2004	2003
Customer "A"	\$ 1,465,429	\$ 41,489
Customer "B"	3,612,946	2,391,350

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Customer "C"	836,280	767,681
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The Company complies with its supply agreement to sell various strengths of Ibuprofen to the Department of Veteran Affairs through one of its primary customers who is the intermediary wholesale prime vendor.

MAJOR SUPPLIERS

For the three and nine month periods ended March 31, 2004, the Company purchased materials from three suppliers totaling approximately 73% and 85% of the Company's total purchases, and for the three and nine month periods ended March 31, 2003, the Company purchased raw materials from two suppliers totaling approximately 68% and 71% of the Company's total purchases respectively. At March 31, 2004 and 2003, amounts due to these suppliers included in accounts payable, were approximately \$3,095,000 and \$2,348,000 respectively.

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.

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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.

Our operating results for the three and nine-month periods ended March 31, 2004 reflect our continuing expansion plan, including continuing investments in increasing our production capacity and our pursuit of strategic alliances. Presented below are some of our financial highlights for the three and nine-month periods ended March 31, 2004, as compared to the same periods in

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2003:

Three-Months Ended March 31,				
			2004	2003
			(Unaudited)	
(Unaudited)				
Revenue	Increased	57%	\$11,308,000	\$7,191,000
Gross Profit	Increased	106%	\$2,815,000	\$1,366,000
Operating Income	Increased	93%	\$1,551,000	\$802,000
Net Income	Increased	105%	\$984,000	\$481,000

Nine-Months Ended March 31,				
			2004	2003
			(Unaudited)	
(Unaudited)				
Revenue	Increased	51%	\$29,890,000	\$19,760,000
Gross Profit	Increased	88%	\$6,865,000	\$3,650,000
Operating Income	Increased	122%	\$3,482,000	\$1,571,000
Net Income	Increased	143%	\$2,235,000	\$920,000

We believe that a key component of our growth has been, and, will continue to be, our commitment to capital investment to increase production capacity. During the calendar year 2002, and the six-month period ended June 30, 2003, we acquired approximately \$1,200,000 and approximately \$1,000,000, respectively, of new machinery and equipment. In addition, during the nine-month period ended March 31, 2004, we invested approximately \$2,200,000 in new equipment.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

We anticipate closing the purchase of an approximately 100,000 square foot facility in Yaphank, New York, which has been disclosed in previous filings, during quarter ending June 30, 2004. Once we close on the building and FDA approval is obtained, this facility will double our current available space of approximately 100,000 square feet and provide us with sufficient additional acreage for potential further expansion of our production facilities in the future. Until we obtain FDA approval for manufacturing at the Yaphank facility, which we believe should occur in calendar 2005, we may opt to use the new facility for warehousing and other activities, which would enable us to free up space for additional manufacturing in our current plant.

We have obtained \$7.4 million in financing for the purchase of the Yaphank facility as part of a \$21 million new credit facility which is also comprised of three credit lines aggregating \$8.6 million, primarily to acquire new equipment

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or for renovations, and a \$5.0 million credit line primarily for working capital and general corporate purposes. (See Note 6) At our option, interest will be calculated (i) at LIBOR plus 1.5% for 3,6,9,12,24, or 36 months, or (ii) at the lender's then fixed prime rate.

In order to exploit our primary strength in efficient and cost effective manufacturing, we continue to pursue new strategic alliances. In addition, we have budgeted over \$1.7 million for research and development through December 31, 2004 with the goal of increasing our pipeline of drugs in various stages of development by seven to nine in that period. We currently have seven drugs in various stages of development. In addition, in March, 2004, we obtained FDA approval for an Abbreviated New Drug Application for Hydrocodone Bitartrate and Ibuprofen Tablets, 5 mg/200 mg.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

THREE AND NINE MONTHS ENDED MARCH 31, 2004, COMPARED TO MARCH 31, 2003.

REVENUES

Net sales for the three-month period ended March 31, 2004 were \$11,308,000 compared to \$7,191,000 for the three-months ended March 31, 2003, an increase of \$4,117,000. This increase was primarily attributable to sales of Atenolol, Allopurinol and Naproxen, which totaled approximately \$4,025,000 during the quarter. During the same period last year we did not produce Atenolol or Allopurinol, and Naproxen sales were approximately \$265,000.

Net sales for the nine-months ended March 31, 2004 were \$29,890,000 compared to \$19,760,000 for the nine-months ended March 31, 2003, an increase of \$10,130,000. This increase was primarily attributable to sales of Atenolol, Allopurinol and Naproxen which totaled approximately \$11,400,000. During the same period last year we did not produce Atenolol or Allopurinol, and Naproxen sales were approximately \$750,000. Sales of drugs other than Atenolol, Allopurinol and Naproxen decreased by approximately \$500,000 during the nine-month period ended March 31, 2004 due to management's decision to temporarily reassign available manufacturing capacity to higher margin products.

Our increase in net sales and corresponding increases in production were made possible by approximately \$4,400,000 in purchases of new equipment since January, 2002. We plan to continue our investment in new equipment in order to meet increasing demand for our existing products and to facilitate the manufacturing of new products under development.

During the three and nine-month periods ended March 31, 2004, we did not experience returns of material quantities of any of the products we sell. Therefore, we do not believe that we are subject to a material risk attributable to returns.

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COST OF SALES

Raw material prices have remained relatively constant during the three and nine-month periods ended March 31, 2004 when compared to the same periods in 2003. We have continued to increase our labor force to accommodate both our current growth and our projected future growth. The FDA regulates most aspects of our manufacturing processes. Therefore, we provide extensive training to all of our employees, which results in a three month lag between the hiring of a new employee and when he or she can be fully incorporated into our production process.

Our gross profit percentages for the three and nine-month periods ended March 31, 2004 were 24.9% and 23.0%, respectively. This represents an increase of 5.9 and 4.5 percentage points, respectively, from the same periods in 2003. Our increasing margins are primarily the result of the production of higher margin products through the diversification of our product line as well as increased manufacturing efficiency. We believe that, subject to raw material costs and other market conditions, as to which there can be no assurance, gross profit should continue to remain higher than in previous reporting periods.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include salaries and related costs, commissions, travel, facilities, communications costs and promotional expenses for the Company's 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 \$663,000 to approximately \$1,166,000, or 10.3% of net sales during the three-months ended March 31, 2004, from approximately \$503,000, or 7.0% of net sales, during the same period in 2003. The significant components of this increase are: salaries, including payroll taxes and benefits (\$271,000); selling commissions (\$168,000), insurance (\$25,000), legal, accounting and professional fees (\$32,000); rent (\$24,000) and listing and transfer agent fees (\$45,000). The increase in salaries, payroll taxes, benefits, insurance, legal, accounting and professional fees and listing and transfer agent fees is primarily attributable to our recent expansion and status as a public company. The increase in selling commissions is primarily attributable to our increased sales.

Selling, general and administrative expenses for the nine-months ended March 31, 2004 were \$3,060,000, or 10.2% of sales, an increase of \$1,346,000 when compared to \$1,714,000, or 8.7% of sales for the nine-months ended March 31, 2003. The significant components of this increase are: salaries, including payroll taxes and benefits (\$725,000); selling commissions (\$257,000), insurance (\$68,000), freight (\$64,000); depreciation (\$34,000); listing and transfer agent fees (\$59,000); data processing (\$30,000); and utilities (\$31,000). The increase in the foregoing expenses is consistent with our overall growth, increase in sales and status as a public company.

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INCOME TAXES

The effective tax rate for the nine-months ended March 31, 2004 was 36% compared to 32% for the nine-months ended March 31, 2003. The tax provision for the nine-months ended March 31, 2004 has resulted in a \$1,219,000 increase in additional paid-in capital due to the utilization of deductions from stock options exercised during the period.

LIQUIDITY AND CAPITAL RESOURCES

We currently finance our operations and capital expenditures through cash flows from operations, bank loans, lines of credit, cash acquired in our reverse merger in May, 2003 and cash received from the exercises of stock options. Net cash used in operating activities for the nine-months ended March 31, 2004 was \$456,000, as compared to \$255,000 for net cash provided by operating activities for the same period last year. When comparing the nine-month periods ended March 31, 2004 and 2003, our net income increased by \$1,315,000. This increase in net

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

income was offset by significant changes in our balance sheet; both accounts receivable and inventories increased \$2,979,000 and \$1,478,000, respectively during the nine-month period ended March 31, 2004. The increase in inventory is necessary in order to fulfill increased demand for our products. Our accounts payable, accrued expenses and other liabilities increased by \$183,000. During the nine-months ended March 31, 2004, we were able to pay down bank loans aggregating \$462,000 and bank lines of credit by \$1,640,000. As discussed in Note 6, we recently secured a \$21,000,000 credit facility consisting of:

- o The \$7,400,000 mortgage loan is to be repaid with 119 monthly installments, based upon an amortization schedule of twenty years, and a balloon payment due in ten years for the balance.
- 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.
- 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 The \$5,000,000 advised line of credit is primarily for working capital and general corporate purposes.

This new credit facility will be collateralized by substantially all assets of the Company and will no longer require the personal guarantees of four of the Company's stockholders. At the option of the Company, interest will generally be calculated at (i) LIBOR plus 1.5% for 3 to 36 months periods, or (ii) at the Bank's then fixed prime rate. In addition, the Company will be 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

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30, 2004. The credit lines are terminable by the Bank at any time as to undrawn amounts.

Net cash used in investing activities was \$1,580,000 for the nine-months ended March 31, 2004, which is as a result of increases in fixed assets of \$2,199,000 and, a security deposit for a new facility of \$925,000 in Yaphank, New York, offset by the collection of \$1,524,000 of notes receivable from the reverse merger, and the sale of property and equipment of \$19,000. Net cash provided by financing activities was \$1,470,000 for the nine-months ended March 31, 2004, which resulted from the receipt of \$3,508,000 from option exercises and \$64,000 of additional cash received after the reverse merger transaction, less repayment of various bank lines of approximately \$2,102,000. As of March 31, 2004, the amount outstanding on these credit lines was \$425,000.

As a result of our cash flows from operations and financing activities during the nine-months ended March 31, 2004, working capital increased \$4,800,000 to \$10,300,000 from \$5,500,000 at June 30, 2003.

We believe the financing arrangements described above, our increased working capital, funds generated from operations and cash provided by option exercises will allow us to continue our expansion plans and will be sufficient to continue meet our operating requirements. 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 March 31, 2004, we had approximately \$14,000,000 in Federal net operating loss carryforwards ("NOLs") available to reduce future taxable income. These NOLs could result in savings of approximately \$4,900,000 in future income tax payments (although there will be no corresponding benefit on income tax expenses).

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

ACCOUNTS RECEIVABLE

Our accounts receivable at March 31, 2004 was \$7,909,000 compared to \$4,930,000 as at June 30, 2003. This increase is primarily attributable to increased sales volume. The quality of our accounts receivable are such that we have encountered little or no bad debt exposure.

INVENTORY

At March 31, 2004, our inventory was \$6,062,000, an increase of \$1,479,000 from \$4,583,000 at June 30, 2003. Our inventory turnover of 5.7 annualized turns decreased slightly when compared to December 31, 2003 - 5.8 average turns and 6.1 at June, 2003. We believe this to be within acceptable limits to our expansion plan.

ACCOUNTS PAYABLE

The accounts and accrued expenses payable increased slightly by approximately \$183,000 during the nine months ended March 31, 2004 as compared to June 30, 2003.

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CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased by \$565,000 from \$2,336,000 at June 30, 2003 to \$1,771,000 at March 31, 2004. During the nine-months ended March 31, 2004, we funded our operations primarily from two sources: (i) collection of \$1,524,000 of notes receivable associated with the reverse merger and (ii) through the collection of approximately \$3,508,000 from the exercise of stock options. These inflows were offset by: (i) net cash used in operating activities of \$465,000, consisting of net income of \$2,235,000, offset by net funds used in operating activities of \$2,700,000; (ii) acquisition of new packaging equipment and other fixed assets aggregating \$2,199,000; (iii) the deposit on a new facility of \$925,000; and (iv) repayment of various bank lines of credit and bank notes payable totaling approximately \$2,102,000.

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.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

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.

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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 and manufacturing. 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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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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. Borrowings under our lines of credit are indexed to the prime rate.

Due to the nature of our borrowings and short-term investments, we have concluded that there is no material risk exposure.

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.

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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 March 31, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, and our 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, and the 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, except with respect to inventory costing and segregation of duties within our accounting department. Management has, and continues to assess the nature of the additional controls, systems and procedures to improve reporting and information with respect to inventory and to implement additional controls within our accounting department.

Management has devoted additional resources to assure that inventory has been properly costed and to mitigate the risks of a lack of segregation of duties in the accounting department. As a result Management believes that our financial statements for the quarter ended March 31, 2004 are fairly presented in all material respects.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

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

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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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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

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: May 17, 2004

By: /S/ GEORGE ARONSON

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

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EXHIBITS

NUMBER	DESCRIPTION
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- 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;