INTERPHARM HOLDINGS INC
Form 10-Q
May 16, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended March 31, 2005

|_| 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)
75 Adams Avenue, Hauppauge, New York	11788
(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 13, 2005, there were 26,063,832 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

	March 31, 2005 (Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	$ 2,627,650	$
Marketable securities, at fair market value	--	
Accounts receivable, net	6,512,372	
Inventories, net	8,594,687	
Prepaid expenses and other current assets	584,291	
Deferred tax assets	--	
Total Current Assets	18,319,000	
Land, building and equipment, net	19,942,927	
Deferred tax assets	3,972,000	
Investment in APR, LLC	772,500	
Deposits	320,557	
TOTAL ASSETS	$ 43,326,984	$

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
	(Unaudi
CURRENT LIABILITIES	
Current maturities of bank debt payable	$6
Accounts payable, accrued expenses, and other liabilities	7
Total Current Liabilities	13
OTHER LIABILITIES	
Bank debt, less current maturities	6
TOTAL LIABILITIES	20
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stocks, 10,000,000 shares authorized; issued and outstanding - 6,901,146 and 6,902,963, respectively; aggregate liquidation preference of $5,483,095 and $5,494,080, respectively	
Common stock, $.01 par value, 70,000,000 shares authorized; shares issued - 24,967,202 and 25,591,311, respectively	
Additional paid-in capital	18
Accumulated other comprehensive loss	
Retained earnings	4
Treasury stock at cost, 624,145 shares in 2004	
TOTAL STOCKHOLDERS' EQUITY	23
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$43

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2005	2004
SALES, Net	$ 10,669,660	$ 11,307,974
COST OF SALES (including related party rent expense of $102,000 and $306,000 for the three and nine months ended March 31, 2005 and 2004, respectively)	8,397,880	8,492,823
GROSS PROFIT	2,271,780	2,815,151
OPERATING EXPENSES		
Selling, general and administrative expenses	1,579,724	1,165,945
Related party rent expense	18,000	18,000
Research and development	1,658,975	80,535
TOTAL OPERATING EXPENSES	3,256,699	1,264,480
OPERATING (LOSS) INCOME	(984,919)	1,550,671
OTHER INCOME (EXPENSE)		
Gain on sale of marketable securities	--	--
Gain on sale of property and equipment	--	2,554
Interest expense	(21,655)	(5,483)
Interest income	--	11,208
TOTAL OTHER INCOME (EXPENSE)	(21,655)	8,279
(LOSS) INCOME BEFORE INCOME TAXES	(1,006,574)	1,558,950

(Forward)

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,		Nine Mont
	2005	2004	2005
(Forward)			
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(373,000)	575,420	239,228
NET (LOSS) INCOME	$ (633,574)	$ 983,530	$ 405,230
EARNINGS PER SHARE			
Basic earnings per share	$ (0.03)	$ 0.05	$ 0.01
Diluted earnings per share	$ (0.03)	$ 0.01	$ 0.00
Basic weighted average shares outstanding	24,967,202	18,457,790	24,967,196
Diluted weighted average shares and equivalent shares outstanding	24,967,202	69,336,012	67,701,862

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	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 common stock	(1,797)	(1,797)	36	--
Dividends declared - Series A-1	--	--	--	--
Net income	--	--	--	--
BALANCE - December 31, 2004	6,901,166	346,245	25,591,347	255,913
Retirement of Treasury Shares	--	--	(624,145)	(6,241)
Redemption of Series A convertible preferred stock	(20)	(1)	--	--
Net loss	--	--	--	--
BALANCE - March 31, 2005	6,901,146	$ 346,244	24,967,202	$ 249,672

	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
BALANCE - July 1, 2004	$ (92)	$ 3,792,499	(624,145)	$ (797,868)
Unrealized gain on marketable securities, net	3,194	--	--	--
Net income	--	413,272	--	--
BALANCE - September 30, 2004	3,102	4,205,771	(624,145)	(797,868)
Unrealized loss on marketable securities, net	(3,102)	--	--	--
Conversion of Series C convertible preferred stock common stock	--	--	--	--
Dividends declared - Series A-1	--	(178,719)	--	--
Net income	--	625,532	--	--
BALANCE - December 31, 2004	--	4,652,584	(624,145)	(797,868)
Retirement of Treasury Shares	--	--	624,145	797,868
Redemption of Series A				

convertible preferred stock	--	--	--	--
Net loss	--	(633,574)	--	--
BALANCE - March 31, 2005	$ --	$ 4,019,010	--	$ --

See Notes To Condensed Consolidated Financial Statements.

For The Nine Months Ended March 31, 2005

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHSENSIVE (LOSS) INCOME
(UNAUDITED)

	Three Months Ended March 31,		Nine Month March
	2005	2004	2005
NET (LOSS) INCOME	$ (633,574)	$ 983,530	$ 405,230
OTHER COMPREHENSIVE (LOSS) INCOME			
Unrealized (loss) gain on marketable securities, net	--	(10,811)	--
TOTAL COMPREHENSIVE (LOSS) INCOME	$ (633,574)	$ 972,719	$ 405,230

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months E March 31 2005	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 405,230	$
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Gain on sale of marketable securities	(8,943)	
Gain on sales of property and equipment	--	
Depreciation and amortization	908,101	
Deferred tax expense	210,000	
Tax expense in connection with exercise of employee stock options credited to additional paid-in-capital	--	
Changes in operating assets and liabilities		
Accounts receivable	337,406	
Inventories	(3,064,526)	
Prepaid expenses and other current assets	(85,308)	
Deposits	--	
Accounts payable, accrued expenses and other liabilities	2,633,958	
TOTAL ADJUSTMENTS	930,688	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,335,918	
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from notes receivable	--	
Purchases of building and equipment	(5,843,896)	
Proceeds from sales of property and equipment	--	
Investment in APR, LLC	(772,500)	
Deposits	(96,270)	
NET CASH USED IN INVESTING ACTIVITIES	(6,712,666)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank line of credit	(424,847)	
Borrowings from new bank lines of credit	5,970,000	
Repayments of bank mortgage and notes payable	(246,667)	
Payment of Series A-1 preferred stock dividend	(178,719)	
Redemption of Series A convertible preferred stock	(8)	
Cash received in reverse merger transaction	--	
Proceeds from options and warrants exercised	--	
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 5,119,759	$

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED), Continued

	Nine Months Ended March31, 2005	
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (256,989)	$ (
CASH AND CASH EQUIVALENTS - Beginning	2,884,639	2,
CASH AND CASH EQUIVALENTS - Ending	$ 2,627,650	$ 1,
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the periods for:		
Interest	$ 200,985	$
Income taxes	$ 31,148	$
Non-cash investing and financing activities:		
Conversion of Series J preferred stock to common stock	$ --	$
Conversion of Series C preferred stock to common stock	$ 1,797	
Retirement of Treasury Stock	$ 797,868	
Valuation Adjustment related to reverse merger	$ --	$

See Notes To Condensed Consolidated Financial Statements.

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 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, 2005 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 (loss) 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 net (loss) income 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. In accordance with EITF Issue No. 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share," in periods when there is a net income, the Company uses the two-class method to calculate the effect of the participating Series K on the calculation of basic EPS and the if-converted method is used to calculate the effect of the participating Series K on diluted EPS. In periods when there is a net loss, the effect of the participating Series K is excluded from both basic and 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 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.

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

NOTE 2 - Summary of Significant Accounting Policies, continued

be depreciated over the useful lives of the assets. The Company capitalized approximately $271,000 during the nine month period ended March 31, 2005 in connection with its capital improvements to the Brookhaven, NY facility.

Stock Based Compensation

At March 31, 2005, 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 (loss) income and net (loss) 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 March 31,		Nine M Mar
	2005	2004	2005
Net (loss) income, as reported	$ (633,574)	$ 983,530	$ 405,
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of income tax	9,270,345	212,550	10,583,
Pro forma net (loss) income	$ (9,903,919)	$ 770,980	$ (10,178,
Basic net (loss) income per share			
As reported	$ (0.03)	$ 0.05	$ 0
Pro forma	$ (0.40)	$ 0.04	$ (0
Diluted net (loss) income per share			
As reported	$ (0.03)	$ 0.01	$ 0
Pro forma	$ (0.40)	$ 0.01	$ (0

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 2005 period includes the pro-forma effects of accelerating options valued at $4.2 million, as discussed below.

In an effort to reduce the expected 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

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

NOTE 2 - Summary of Significant Accounting Policies, continued

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.

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 ranging from 106% to 131% in 2005 and 124% in 2004, respectively (2) risk-free interest rate ranging from 4.25% to 5.58% in 2005 and 3.4% for 2004, respectively and (3) expected average lives of 10 years for 2005 and 2004, respectively.

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 (loss) 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.

On March 3, 2005 the FASB issued FASB Staff Position FIN 46 (R)-5, which addresses whether a reporting enterprise should consider whether it holds an implicit variable interest in a variable interest entity ("VIE") or a potential VIE when specific conditions exist. The guidance shall be applied to the first reporting period beginning after March 3, 2005, but early application is permitted for periods in which financial statements have not yet been issued.

The Company leases its premises from Sutaria Realty Family Trust. Sutaria Realty Family Trust is owned directly or indirectly by officers of the Company. Management is evaluating the relationship between the Company and Sutaria Realty Family Trust to determine if Sutaria Realty Family Trust is an implicit variable interest entity and the impact on the condensed consolidated financial statements.

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

NOTE 3 - Inventories

Inventories consist of the following:

	March 31, 2005	June 30, 2004
Finished goods	$ 222,509	$ 534,175
Work in process	4,874,591	2,710,270
Raw materials	3,033,464	1,932,971
Packaging materials	464,123	352,745
Total	$ 8,594,687	$ 5,530,161

NOTE 4 - Land, Building and Equipment

Land, building and equipment consists of the following:

	March 31, 2005	June 30, 2004
Land	$ 4,924,000	$ 4,924,000
Building, improvements and construction in progress (a)	6,880,466	4,475,482
Machinery and equipment	8,698,393	5,457,395

Furniture and fixtures	360,144	319,762
Leasehold improvements	2,780,735	2,623,203
	23,643,738	17,799,842
Less: accumulated depreciation and amortization	3,700,811	2,792,710
Land, Building and Equipment, net	$ 19,942,927	$ 15,007,132

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

NOTE 5 - Bank Debt

At March 31, 2005, the Company had $5,970,000 outstanding under advised lines of credit, with $7,630,000 available for future borrowings. Interest rates applied to these borrowings are calculated at ninety day LIBOR plus 150 basis points and range from 4.12% to 4.46%. At the end of each term the Company has the option to extend the borrowings at LIBOR plus 150 basis points for terms ranging from 3 to 36 months or at the Bank's then fixed prime rate. In addition, the Company will be required to comply with certain financial covenants. The credit lines are terminable by the Bank at any time as to undrawn amounts.

Additionally, the Company has a mortgage note payable of $7,153,333 of which $6,783,333 is accounted for as long term and $370,000 is accounted for as current. At March 31, 2005 the interest rate was 4.46% and will be recalculated on July 1, 2005.

During the nine month period ended March 31, 2005 the Company repaid approximately $425,000 of various bank lines of credit, as well as $247,000 of the mortgage note payable.

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

NOTE 5 - Bank Debt, continued

A summary of the outstanding balances is as follows:

	March 31,2005	June 30, 2004
Lines of credit	$ 5,970,000	$ 394,014
Mortgage note payable	7,153,333	7,430,833
	13,123,333	7,824,847
Less current maturities	6,340,000	764,014

Bank debt, less current maturities	$ 6,783,333	$ 7,060,833

NOTE 6- Income Taxes

At March 31, 2005 the Company has remaining Federal net operating loss carryforwards ("NOLs") of approximately $11,500,000 and State NOLs of approximately $10,900,000 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 March 31, 2005, 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 recorded a valuation allowance for approximately 30% of the State NOLs which the Company does not anticipate utilizing due to State limitations.

In calculating its tax provision for the three and nine month periods ended March 31, 2005, the Company applied an aggregate effective tax rate of approximately 37% thereby creating a deferred income tax benefit of $373,000 and an deferred income tax expense of $210,000, respectively, and adjusted its deferred tax asset by like amounts.

NOTE 7- Earning Per Share

The calculations of basic and diluted EPS are as follows:

	Three Months Ended March 31,	
	2005	2004
Numerator:		
Net (loss) income	$ (633,574)	$ 983,530
Less: Preferred stock dividends	41,392	41,392
Less: Net (loss) income attributable to Series K preferred stockholders	N/A	93,264
Numerator for basic EPS	(674,966)	848,874
Effect of dilutive securities:		
Net (loss) income attributable to Series K preferred stockholders	N/A	93,264
Numerator for diluted EPS	$ (674,966)	$ 942,138

NOTE 7- Earning Per Share, continued

Denominator:			
Denominator for basic EPS weighted average shares outstanding	24,967,202	18,457,790	24,
Effect of dilutive securities:			
Convertible Series K preferred stock	N/A	43,779,647	37,
Convertible Series A, B, C and J preferred stocks	N/A	7,438	
Stock options	N/A	7,091,137	5,
Denominator for diluted EPS	24,967,202	69,336,012	67,
Basic EPS	$ (0.03)	$ 0.05	$
Diluted EPS	$ (0.03)	$ 0.01	$

As of March 31,2005, 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, 2005	24,967,202
Stock options and Warrants outstanding	12,917,500
Common stock issuable upon conversion of preferred stocks:	
Series A	1,522
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)	80,396,139

(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).

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

NOTE 8 - Equity Securities

Common Stock and Stock Options
During the three month period ended March 31, 2005, the Company issued 2,382,500 options to purchase its common stock as follows:

- As part of an employment agreement 2,000,000 vested options were issued to the Company's Chief Executive Officer, Cameron Reid having an exercise price of $2.24, which was the closing price of the Company's common stock on the date of the grant.

- 25,000 vested options were granted to the Company's Chief Financial Officer, having an exercise price of $2.24, which was the closing price of the Company's common stock on the date of the grant.

- 50,000 vested options were granted to the Company's director of business development, having an exercise price of $2.24, which was the closing price of the Company's common stock on the date of the grant.

- 150,000 options were granted to the Company's VP of sales and marketing, having an exercise price of $2.24, which was the closing price of the Company's common stock on the date of the grant. 20% of the options shall vest on June 30, 2006, and 20% on each of the next four anniversaries thereof.

- 150,000 options were granted to the Company's VP of intellectual property, having an exercise price of $1.94, which was the closing price of the Company's common stock on the date of the grant. 40,000 of the options are fully vested on the grant date; the balance shall vest at 20% on February 28, 2006, and 20% on each of the next four anniversaries thereof.

- 7,500 options were granted to a non-executive employee. The options vest at March 31, 2006 and have an exercise price of $1.64, which was the closing price of the Company's common stock on the date of the grant.

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.

Preferred Stock
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 was cumulative through June 30, 2004, and was paid March 10, 2005. As of March 31, 2005 the Company's Board of Directors had not yet declared any dividend on the A-1 shares for the period July 1, 2004 thru March 31, 2005. Such undeclared dividends amounted to approximately $124,000 (Note 14).

Treasury Stock
In January, 2005 the Company retired 624,145 shares of its treasury stock,

valued at approximately $798,000. This was accounted for as a reduction of the Company's Additional Paid-in Capital.

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

NOTE 9 - Economic Dependency

Major Customers

The Company had the following customer concentrations for the three and nine month periods ended March 31, 2005 and 2004:

Sales - Percent of Revenue

	Three Months Ended March 31,		Nine Months Ended March	
	2005	2004	2005	2004
Customer "A"	29%	24%	23%	29%
Customer "B"	18	35	24	29
Customer "C"	11	8	14	10

Accounts Receivable

	March 31, 2005
Customer "A"	$ 1,918,000
Customer "B"	1,595,000
Customer "C"	841,000

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 nine month periods ended March 31, 2005, the Company purchased materials from three suppliers totaling approximately 75% and 73% of purchases, respectively. For the three and nine month periods ended March 31, 2004, the Company purchased materials from three suppliers totaling approximately and 73% and 85%, respectively. At March 31, 2005 and 2004, aggregate amounts due to these suppliers included in accounts payable, were approximately $3,832,000 and $3,095,000 respectively.

NOTE 10 - Related Party Transactions

Rents

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.

Investment in APR, LLC.
On February 16, 2005 the Company purchased 5.0 and 2.5 Class A membership interests ("Interests") from Cameron Reid ("Reid"), our Chief Executive Officer, and John Lomans ("Lomans"),who has no affiliation with the Company, for purchase prices of $500,000 and $250,000, respectively, of APR, LLC, a Delaware limited liability company primarily engaged in the development of complex bulk pharmaceutical products ("APR"). The purchases were made pursuant to separate Class A Membership Interest Purchase Agreements dated February 16, 2005 between the Company and Reid and Lomans (the "Purchase Agreements"). At the time of the purchases, Reid and Lomans owned all of the outstanding Class A membership interests of APR, which had outstanding 75 Class A membership interests and 100 Class B membership interests. The two classes of membership interests have different economic and voting rights, and the Class A members have the right to make most operational decisions. The Class B interests are held by one of the Company's major customers and suppliers.

In connection with the purchases made by the Company on February 16, 2005, the Company had an agreement to purchase up to an additional 2.5 Interests from Lomans. On April 11, 2005 the Company purchased an additional 2.5 Interests from Lomans for a purchase price of $250,000. As such, the Company currently owns 10 Interests out of the 100 Interests now outstanding.

In accordance with the terms of the Purchase Agreements, the Company has granted to Reid and Lomans each a proxy to vote 5 of the Interests owned by the Company on all matters on which the holders of Interests may vote. The Board of Directors approved the purchases of Interests at a meeting held on February 15, 2005, based on an analysis and advice from an independent investment banking firm. Reid did not participate during the Company's deliberations on this matter. The Company is accounting for its investment in APR pursuant to the cost method of accounting.

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 - Significant New Contracts

As previously announced, in February, 2005, the Company entered into two agreements with Tris Pharma, Inc. ("Tris"). One of the agreements is for the development and licensing of twenty-five liquid generic products. According to the terms of the agreement for the liquid products, Tris is

to develop and deliver the properties, specifications and formulations ("Technical Packages") necessary to effectuate a technology transfer to the Company for the twenty-five generic liquid pharmaceutical products. The Company will then utilize this information to obtain all necessary approvals and manufacture and market the products. Further, this agreement provides the Company with a perpetual license of all technology and components of the Technical Packages necessary to produce the liquid products that are the subject of the agreement. It also allows the Company the use of the technology for other products in exchange for an additional fee. In the event that Tris delivers twenty-five successful Technical Packages, of which there can be no assurance, the Company will pay Tris approximately $3,000,000. In addition, Tris is to receive a royalty of between 10% and 12% of net profits resulting from the sales of each product. As of March 31, 2005, the Company paid $250,000 to Tris. In accordance with the terms in the agreement, the Company will pay the remaining portion as various milestone deliveries are presented.

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

NOTE 12 - Significant New Contracts, continued

The other agreement is for development and licensing of seven solid generic pharmaceutical products, some of which require specialized technology. According to the terms of the agreement for the solid dosage products, the Company will collaborate with Tris on the development, manufacture and marketing of seven solid oral dosage generic products, some of which may require the Company to challenge the patents for the equivalent branded products. This agreement provides for payments of an aggregate of $3,750,000 to Tris, whether or not regulatory approval is obtained for any of the products. The agreement for solids also provides for an equal sharing of net profits for each product that is successfully sold and marketed, after the deduction and reimbursement of all litigation-related and certain other costs. Further, this agreement provides the Company with a perpetual royalty-free license to use all technology necessary for the solid products in the United States, its territories and possessions. As of March 31, 2005, the Company paid $750,000, with the balance to be paid essentially over the next seven quarters.

NOTE 13 - Product Sales Analysis

An analysis of the Company's net sales by product for the three and nine month periods ended March 31, 2005 and March 31, 2004 is present below.

	Three Months Ended March 31		Nine Months Ended March 31,	
	2005 Sales	2004 Sales	2005 Sales	2004 Sales
Ibuprofen	6,188	6,454	$ 17,891	$ 16,774
Allopurinol & Atenolol	2,388	2,089	5,589	7,952

Naproxen	517	1,936	1,320	3,471
All Other Products	1,577	829	3,761	1,693
Total	$ 10,670	$ 11,308	$ 28,561	$ 29,890

NOTE 14 - Subsequent events

The Company's board of directors, at a meeting held May 12, 2005, declared a dividend payable amounting to $124,177 for the Series A-1 cumulative convertible preferred stock for cumulative dividends earned through March 31, 2005.

Subsequent to March 31, 2005, the Company issued 1,096,630 shares of its common stock as a result of an employee exercising a like amount of options. The Company received a cash deposit of approximately $627,000 during the quarter, in advance of the exercise of said stock options, included in Accounts payable, accrued expenses and other liabilities as at March 31, 2005.

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, distributors, repackagers, and other manufacturers which sell our products under their labels. Sales are recognized when the product is shipped and appropriate provisions are made for returns and charge backs.

Cameron Reid, with over 25 years experience in the pharmaceutical industry, joined our Board of Directors in May, 2004, to assist us in the creation of our internal business plan. Under Mr. Reid's direction, we have created a business plan which capitalizes on our core competencies in the selection of new products as well as diversifies our product development into new areas. In order to implement our plan, Mr. Reid was appointed Chief Executive Officer of Interpharm in January, 2005. Simultaneously with his appointment, Mr. Reid resigned his position on our Board of Directors to focus solely on his duties as Chief Executive Officer.

In order to accelerate our new product development, we have, since February 2005, entered into arrangements with three companies for the development of new products. We spent approximately $1,659,000 on research and development during the quarter ended March 31, 2005 as compared to approximately $81,000 during the same period last year. In order to successfully implement our plan, we will continue to increase our research and development expenditures. However, there can be no assurance that our increased expenditures will result in successful products or increased revenues or profits. In order to capitalize on the availability of qualified scientific and other research and development

personnel at significant cost savings, we have begun planning for a research and development facility in Ahmnebad, India. In addition to supplementing our continuing research and development activities in the United States, the planned facility in India, if and when completed, will reduce our reliance on third parties for new product development. However, as we expand our internal research and development capabilities, we will continue to seek strategic alliances with third parties, such as our previously announced agreement with Tris Pharma Inc., for the development of products requiring specialized technologies.

Results of Operations

Summary

Our loss before income taxes for the quarter ended March 31, 2005 of $1,007,000 represents a decrease in income of $2,566,000 when compared to income before taxes of $1,559,000 for the same period last year. The decrease is the result of the increase in research and development expenses of approximately $1,578,000 (62% of the decrease), an increase in selling, general, and administrative expenses of approximately $414,000 (16%) and a decrease in gross profit of approximately $543,000 (21%). During the period ended March 31, 2005, our increase in research and development expenses was attributable to the commencement of the implementation of our business plan. The increase in selling, general and administrative expenses was to retain key management personnel that were not employed by us a year ago and the reduction in gross profit is primarily attributable to a decrease in net sales and a 3.6% decrease in gross profit percentage. We will continue to incur increasing research and development expenses in the future and believe that these expenditures, combined with the hiring of additional personnel, are critical to the successful implementation of our business plan.

Net sales by product (in thousands of dollars):

	Three Months Ended March 31,				
	2005 Sales	% of Sales	2004 Sales	% of sales	Varia
Ibuprofen	$ 6,188	58	$ 6,454	58	$ (2
Allopurinol & Atenolol	2,388	22	2,089	18	2
Naproxen	517	5	1,936	17	(1,4
All Other Products	1,577	15	829	7	7
Total	$ 10,670		$ 11,308		$ (6

	Nine Months Ended March 31,				
	2005 Sales	% of Sales	2004 Sales	% of sales	Varia
Ibuprofen	$ 17,891	62	$ 16,774	56	$ 1,1

Allopurinol & Atenolol	5,589	20	7,952	27	(2,3
Naproxen	1,320	5	3,471	12	(2,1
All Other Products	3,761	13	1,693	6	2,0
Total	$ 28,561		$ 29,890		$ (1,3

As indicated in the tables above, our net revenues decreased. Significant components include:

- Net sales of Ibuprofen for the nine month period ended March 31, 2005 increased $1,117,000 or 6.7% when compared to the nine month period ended March 31, 2004. However, during the quarter ended March 31, 2005 there was a 4.1% 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, however, there can be no assurance that this will occur.

- Both Allopurinol and Atenolol are manufactured for one customer based on quantities ordered by the customer. Net sales for these two products during the three month period ended March 31, 2005 were slightly higher than the same three month period in the prior year. However, when examining the results for the nine months ended March 31st, we determined that orders of Allopurinol and Atenolol were above normal quantities during the nine month period ended March 31, 2004, resulting in a decrease of approximately $2,363,000 or more than one-third of the 2004 year to date results. As revenue attributable for these two products are from one customer, it is difficult to forecast, however, at present we believe future quarterly net sales through the end of the calendar year 2005, for Allopurinol and Atenolol should approximate the quarterly average recognized during the nine month period ended March 31, 2005, however, there can be no assurance that this will occur.

- As compared to the three month period ended March 31, 2004, our net sales of Naproxen decreased $1,419,000. Net sales of Naproxen during the three month period ended March 31, 2004 included shipments of more than $1,400,000, to one customer, an amount nearly equal to the six month period ended December 31, 2003 of $1,535,000. This customer has placed minimal re-orders since that time. We believe we have identified new customers for Naproxen and therefore, believe that future net sales of Naproxen may begin to increase during our fiscal 2006 year. However than can be no assurance that this will occur.

- Since we began shipping Hydrocodone-7.5 mg/Ibuprofen-200 mg, our generic version of Vicoprofen, in October, 2004, we have recognized revenue of $1,242,000. While it is still too early to accurately forecast future net sales for this product, wedo not believe future orders will be as high because the results for the year to date period included initial shipments, which tend to be greater than future replenishment orders. The results for the periods reported include additional revenue derived from our profit sharing arrangement for this product.

Cost of Sales / Gross Profit

During the three and nine month periods ended March 31, 2005, with respect to our primary products, raw material prices have remained relatively constant when compared to prior year. 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 during the three months ended March 31, 2005, primarily as a result of costs associated to training production staff for the second facility, which we anticipate will be operational sometime in 2005. Additionally, we witnessed increases in general overhead costs such as product liability and utilities. We believe these higher costs we likely continue for the near future.

As a result of the issues outlined above, our total gross profit percentage for the three months ended March 31, 2005 was 21.3%, a decrease of 3.6 percentage points compared to 24.9% for the three months ended March 31, 2004. Our total gross profit percentage for the nine months ended March 31, 2005 was 23.8%, an increase of 0.8 percentage points compared to 23.0% for the nine months ended March 31, 2004. During the nine-month period ended March 31, 2005, we shipped approximately $670,000 of inventory that had not been previously capitalized. Without such sale our gross profit percentage for the nine months ended March 31, 2005 would have been 21.5%, a decrease of 1.5 percentage points compared to 23.0% for the nine months ended March 31, 2004.

Research and Development Expenses

As described above, as part of our business plan, during the three month period ended March 31, 2005, we took significant steps toward expanding our product line. During the three month period ended March 31, 2005, the Company had research and development expenses of $1,659,000 as compared to approximately $81,000 for the same period last year.

As previously announced, in February, 2005, we entered into two agreements with Tris Pharma, Inc. ("Tris"). One of the agreements is for the development and licensing of twenty-five liquid generic products. According to the terms of the agreement for the liquid products, Tris is to develop and deliver the properties, specifications and formulations ("Technical Packages") necessary to effectuate a technology transfer to us for the twenty-five generic liquid pharmaceutical products. We will then utilize this information to obtain all necessary approvals and manufacture and market the products. Further, this agreement provides us with a perpetual license of all technology and components of the Technical Packages necessary to produce the liquid products that are the subject of the agreement. It also allows us use of the technology for other products in exchange for an additional fee. In the event that Tris delivers twenty-five successful Technical Packages, of which there can be no assurance, we will pay Tris approximately $3,000,000. In addition, Tris is to receive a royalty of between 10% and 12% of net profits resulting from the sales of each product.

The other agreement is for development and licensing of seven solid generic pharmaceutical products, some of which require specialized technology. According to the terms of the agreement for the solid dosage products, we will collaborate with Tris on the development, manufacture and marketing of seven solid oral dosage generic products, some of which may require us to challenge the patents for the equivalent branded products. This agreement provides for payments of an aggregate of $3,750,000 to Tris, whether or not we obtain regulatory approval for any of the products. The agreement for solids also provides for an equal sharing of net profits for each product that is successfully sold and marketed, after the deduction and reimbursement of all litigation-related and certain

other costs. Further, this agreement provides us with a perpetual royalty-free license to use all technology necessary for the solid products in the United States, its territories and possessions.

While we have selected the liquid and solid products we believe can be successfully developed, manufactured and marketed, there can be no assurance that the liquid products will be commercially successful, or that Interpharm and Tris will be able to successfully develop, manufacture and market any of the solid products.

In connection with the agreements described above, we have, as of March 31, 2005, paid $1,000,000 to Tris. In addition, during the three month period ended March 31, 2005, we have disbursed an aggregate of approximately $659,000 for labor, raw materials, bio-equivalency studies and tooling toward other projects.

If we are successful in our efforts we believe we could see sales from new products to our line during fiscal 2006, however, there can be no assurance that these products or our second facility will obtain timely FDA approval.

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 $414,000 to approximately $1,580,000, or 14.8% of net sales during the three months ended March 31, 2005, from approximately $1,166,000, or 10.3% of net sales, during the same period in 2004. The significant components of this increase are: salaries, including payroll taxes and benefits ($301,000); legal and accounting costs of ($98,000); and software licenses and fees ($34,000).

Selling, general and administrative expenses increased approximately $833,000 to approximately $3,893,000, or 13.6% of net sales during the nine months ended March 31, 2005, from approximately $3,060,000, or 10.2% of net sales, during the same period in the prior year. The significant components of this increase are: salaries, including payroll taxes and benefits ($444,000); professional services; investor relations ($143,000) and public relations ($88,000); utilities ($62,000); legal and accounting ($54,000) and travel /auto/entertainment ($50,000).

The increase in salaries, payroll taxes, benefits, professional fees and utilities are primarily attributable to our continuing overall corporate expansion. An integral part of our corporate development was to attract and retain key senior executives who have the capability to effectively manage and effectuate our current and long term business strategies. To that end, during the three month period ending March 31, 2005, we retained a new chief executive officer, and filled openings of the vice president of sales and marketing and vice president of intellectual property. 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 increased costs during the three and nine month periods ended March 31, 2005 with little or no

costs incurred during the same period in the prior year. The increases in legal and accounting and professional fees witnessed during the three month period ended March 31, 2005 compared to the same period in the prior year are primarily attributable to added services which are consistent with our product line growth.

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.

Income Taxes

The effective tax rate for the three and nine month periods ended March 31, 2005 of approximately 37.1%, resulted in an income tax benefit of $373,000 and an income tax provision of approximately $239,000, respectively, compared to effective aggregate tax rates of 35.9% and 36% for the three and nine month periods ended March 31, 2004, respectively, which resulted in provisions for income taxes of approximately $575,000 and 1,249,000, 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 accelerated 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 to long term deferred tax asset.

Liquidity and Capital Resources

We currently finance our operations and capital expenditures through bank borrowings and cash flows from operations. Net cash provided by operating activities for the nine month period ended March 31, 2005 was $1,336,000 as compared to $456,000 net cash used in operating activities for the same period in the prior year. Components of the net cash provided from operating activities for the nine month period ended March 31, 2005 include non-cash operating items of $1,092,000 plus net income of $405,000 and a decrease in accounts receivable of $337,000, a increase in accounts payable, accrued expenses and other liabilities of $2,634,000, offset by increases in inventories and prepaid expenses and other current assets of $3,065,000 and $85,000, respectively. It should be noted that during the three month period ended March 31, 2005, we disbursed approximately $1,659,000 for research and development. We belive this level of spending will continue to occur for the forseeable future.

Net cash provided by financing activities of $5,120,000 for the nine months ended March 31, 2005, was a result of drawing $5,970,000 from the available lines of credit offset by the pay down of a mortgage note of $246,000, payment of $179,000 in dividends and working capital lines of credit by $425,000. Net cash provided by financing activities a year ago was $1,470,000. Net cash in-flows for the nine months were used to finance operations as well as our expansion. A component of our current plan is the completion of renovations to

our second facility along with the installation of additional production, packaging and research and development. Additionally, we continue to add to our capacity at our current facility as well. As such, during the nine month period ended March 31, 2005, we disbursed $5,844,000 for new equipment, furniture and improvements. In addition, we have disbursed $96,000 for deposits toward additional assets. As further detailed in Note 10 to our condensed consolidated financial statements, based upon information presented by an independent investment banking firm, the Board of Directors authorized an investment of $750,000, plus $22,500 of related investment banking fees, into APR, LLC, ("APR"), a company primarily engaged in the development of complex bulk pharmaceutical products. In April 2005, we made an additional investment of $250,000. In the aggregate we used $6,713,000 in investing activities during the nine months ended March 31, 2005.

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

- a $7,400,000 mortgage loan used for the purchase of the second facilty. As of March 31, 2005 the total amount remaining is $7,153,333. The interest rate, as at March 31, 2005 was 4.46% through July 31, 2005, at which time it will be set according to the terms setforth below.

- An aggregate of $13,600,000 of advised credit lines primarily to acquire new equipment and for renovations of the Company's two locations and working capital. A portion of the funds accessed through these credit lines are eligible to convert to fully amortizing five year term loans. As of March 31, 2005, we have drawn down $5,970,000, all currently on an interest only basis. Each borrowing is a 90 day loan at LIBOR plus 150 basis points. Interest rates average 4.34% and range from 4.12% to 4.46%.

- 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. In addition, we are required to comply with certain financial covenants. As of March 31, 2005, 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 credit facility is collateralized by substantially all assets of the Company.

During the nine month period ended March 31, 2005, working capital decreased $6,925,000 to $4,785,000 from $11,710,000 at June 30, 2004. Significant factors which contributed to this reduction are increases in:

- current portion of bank borrowings of approximately $5,576,000
- accounts and accrued expenses payable of $2,004,000
- inventory of $3,065,000

plus decreases in:

- current portion of deferred tax assets of $1,280,000

As discussed earlier, we entered into agreements with Tris Pharma, Inc for the development and delivery of thirty-two new Technical Packages. The combined costs of these two agreements will approximate $6,750,000 of which we have paid $1,000,000 as of March 31, 2005. The balance on one agreement of approximately $2,750,000 could be paid within three years. The second agreement has a balance of $3,000,000 and will be paid within two years.

Future cash flows could be aided by utilization of our available Federal net operating loss carryforwards ("NOLs"). At March 31, 2005, we had approximately $11,075,000 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 financing arrangements described above along with the funds we generate from operations should allow us to continue our expansion plans and be sufficient for us to meet our operating requirements during the next twelve months. We are, nevertheless, seeking to significantly increase our credit lines with our banks and are likely to seek other financing arrangements to facilitate the timely implementation of our business plan. However, there can be no assurances that we will be able to raise the necessary additional funds, and if we are unable to raise such funds, we will be required to modify our business plan for new product developments.

Accounts Receivable

Our accounts receivable at March 31, 2005 was $6,512,000 compared to $6,850,000 at June 30, 2004. This decrease is primarily attributable to net sales in the current quarter being less than that of the three month period ended June 30, 2004. Our accounts receivable turnover ratio decreased 1.3 turns to 5.7 turns at March 31, 2005 from 7.0 turns at June 30, 2004. The quality of our accounts receivable is good, and as such we have encountered little or no bad debt exposure.

Inventory

At March 31, 2005, our inventory was $8,595,000, an increase of $3,065,000 from $5,530,000 at June 30, 2004. Our inventory turnover ratio of 4.1 annualized turns at March 31, 2005 decreased when compared to June 30, 2004 - 6.2 average turns. The drop in turnover ratio to slightly over four turns, is primarily the result of a deliberate build-up of inventory in certain key products. As such, we believe the reduction in annual turns as at March 31, 2005, to be within acceptable limits of our current operating plan.

Accounts Payable

The accounts payable, accrued expenses and other liabilities increased by approximately $2,634,000 during the nine month ended March 31, 2005 as compared to June 30, 2004. As outlined above, this increase is primarily a result of a build up of inventory.

Cash and Cash Equivalents

Cash and cash equivalents decreased during the nine months ended March 31, 2005 by approximately $257,000 from $2,885,000 at June 30, 2004 to $2,628,000 at March 31, 2005. Thus far this year we funded our business from bank borrowings and operations: bank borrowings - net $5,298,000; net cash provided by operations - $1,336,000. These were offset primarily through the use of cash to acquire new property and equipment and other additions of $5,940,000 and our investment in APR, LLC of $772,500.

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.

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

Inventory

Our inventories are valued at the lower of cost or market determined on a first-in, first -out basis, and includes the cost of raw materials, labor and manufacturing 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.

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 our second facilty,located in Brookhaven, New York, of which approximately $7,153,333 was outstanding at March 31, 2005. Additionally, as of March 31, 2005, we borrowed an additional $5,970,000 through the advised lines of credit. 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 March 31, 2005, the interest rates on the mortgage note payable was 4.66%. The average interest rate for the $5,970,000 borrowings was 4.34%. If our combined borrowings remained at the same amount as of March 31, 2005, 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 $33,000 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

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 nine month period ended March 31, 2005, 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 nine month periods ended March 31, 2005.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

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 2202.

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.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK

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

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

Signatures

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

INTERPHARM HOLDINGS, INC.
(Registrant)

Date: May 16, 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;

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