INTERPHARM HOLDINGS INC
Form 10-K
September 28, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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)	(IRS. 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

Securities registered pursuant to Section 12(b) of the Act: Common Stock $.01 par value

Securities registered pursuant to Section 12(g) of the Act: Series A Preferred Stock $.01 par value

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 requirement for the past 90 days.

YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

YES [ ] NO [X]

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

YES [ ] NO [X]

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

YES [ ] NO [X]

On December 31, 2004, the aggregate market value of the voting common equity of Interpharm Holdings, Inc., held by non-affiliates of the Registrant was $14,812,796 based on the closing price of $2.45 for such common stock on said date as reported by the American Stock Exchange.

On September 27, 2005, we had 32,338,607 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain information required by Part III (Items 10, 11, 12, and 14) is incorporated by reference to the Registrant's definitive proxy statement (the "2005 Proxy Statement") in connection with its 2005 annual meeting of stockholders, which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934.

INTERPHARM HOLDINGS, INC.
Form 10-K
Fiscal Year Ended June 30, 2005

Table of Contents

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.

PART I

ITEM 1. BUSINESS

Company History

Interpharm Holdings, Inc., (the "Company" or "Interpharm"), through its operating wholly-owned subsidiary, Interpharm, Inc., ("Interpharm, Inc." and collectively with Interpharm, "we" or "us") is engaged in the business of developing, manufacturing and marketing generic prescription strength and

over-the-counter pharmaceutical products. On May 30, 2003, Interpharm, Inc. was acquired by ATEC Group, Inc. ("ATEC") which then changed its name to Interpharm Holdings, Inc. In that transaction, ATEC acquired all of the issued and outstanding shares of Interpharm, Inc. in exchange for both ATEC common and preferred stock. Concurrently with the acquisition of Interpharm, Inc., ATEC sold its then existing computer/systems integration business to certain members of ATEC management who simultaneously resigned from ATEC. These transactions were approved by our shareholders on May 29, 2003 and are fully described in ATEC's definitive proxy statement, filed with the Securities and Exchange Commission on May 2, 2003.

We currently make sales both under our own label and to wholesalers, distributors, repackagers, and other manufacturers which sell our products under their labels. We currently manufacture and market 23 generic drug products, which represent various oral dosage strengths for 13 unique products. Of these, we hold seven Abbreviated New Drug Applications ("ANDA") for fourteen of these products. The remaining products are manufactured under an over-the-counter monogram or are drugs which do not otherwise require ANDAs. We also manufacture fourteen generic products which are various dosage strengths of four unique products for United Research Laboratories, Inc. and Mutual Pharmaceutical Company, Inc.

Our Business and Expansion Plan

Our focus in the past has been primarily on cost-effective manufacturing of a limited number of products. As part of our ongoing expansion plan, we are in the process of transforming the Company into a full service generic products provider. To that end, over the past year, we have focused primarily on improving the infrastructure throughout our organization. First, we have added a number of key personnel, which includes the appointment of Cameron Reid as Chief Executive Officer, Jeffrey Weiss as an Executive Vice President, who runs our new Sales and Marketing Division, Kenneth Cappel as Senior Vice President of Intellectual Property, as well as a Vice President of Operations and a Director of Logistics. We also continued to hire qualified supervisors, managers and regulatory compliance personnel to improve efficiency of operations and ensure regulatory compliance. We believe that these improvements in our infrastructure development will allow us to increase capacity at our current manufacturing facility, thereby allowing us to pursue new customers for our existing product line. We have also focused a significant amount of our resources over the past year to accelerate our new product development. In addition, we have also begun the process of shifting our strategy in sales and marketing to a direct sales mode whereby we will independently market our products to a broad base of customers including, major chains, wholesalers, distributors, managed care entities and government agencies without relying on outside parties. We continue to take advantage of our ability to source raw materials and purchase equipment at advantageous prices. Finally, we have almost completed all the necessary renovations at our location in Yaphank, New York, and, subsequent to year end we have begun the process to secure land to build a research and development facility in Ahmedabad, India.

In order to finance our expansion plan, we have been utilizing our $21 million advised line of credit obtained from HSBC Bank. While we will continue to rely on this advised credit line, continuing with our expansion plan will be dependent on our ability to raise additional capital through either additional debt financing or through an equity investment, the availability of which cannot be assured. If we are unable to obtain sufficient funds, we will have to either delay or scale back on our expansion plan. However, we do not believe our existing business would be materially adversely affected.

Research and Development

We currently anticipate filing over 25 ANDAs over the next 24 months. We believe that this is a significant increase from our past filings of approximately one per year. In order to achieve our objectives, we have already taken significant steps to improve the infrastructure of the Company. First, we have entered into strategic development partnerships with third parties to supplement and accelerate our research and development efforts. In fact, our previously announced contracts with Tris Pharma, Inc. ("Tris"), which are addressed in detail below, not only accelerate our product development efforts in liquids, softgels and drugs that exhibit certain special release characteristics, but they also allow the use by our own research and development team of the technology for those drugs for other products.

We intend to move a majority of our research and development efforts to our new facility in Yaphank, New York before the end of this calendar year. This move will increase nearly five fold our physical facilities devoted to research and development in the United States. In addition, we have begun the process to secure land in Ahmedabad, India on which we plan to build a 40,000 square foot facility, which will be used primarily for research and development. This facility is also anticipated to be used for the processing of bulk active pharmaceutical ingredients ("API") in preparation for finished goods manufacturing in the United States. However, there can be no assurance that we will be successful in constructing this planned facility.

We believe that once our facility in India is operational, we should be able to capitalize on the availability of highly qualified scientific and other research and development personnel at significant cost savings, thereby supplementing our continuing research and development activities in the United States. Regulatory compliance, manufacturing of product for use in bio equivalency studies, and filing of ANDAs will all continue to be done at our research and development facility in the United States. We believe our planned India facility will reduce our reliance on third parties for the development of our product line, thereby reducing the risk that we will either not be able to develop certain products or that we will not be able to develop such products in a timely manner. We will, however, continue to evaluate opportunities with outside companies on certain products such as those requiring specialized technologies.

In order to execute our business plan, we will have to spend a significant amount of money on research and development. During the fiscal year ended June 30, 2004, we spent approximately $538,000 on research and development. During the six-month period ended December 31, 2004, we spent approximately $539,000 on research and development. As we began to implement our plan during the first six months of this calendar year, we spent approximately $3,464,000 on research and development. In order to implement our business plan, we will have to continue to spend on research and development at an even more accelerated pace over the next two years. However, there can be no assurance that our increased research and development expenditures will result in successful products or increased revenues or profits or that we will have sufficient funds to do so.

During the fiscal year ended June 30, 2005, our research and development efforts were limited to solid oral dosage products. The research and development of oral solid dosage products requires studies and FDA review and approval which have historically taken approximately two to three years. However, the length of time necessary to bring a product to market can vary significantly and can depend on, among other things, availability of funding, problems relating to

formulation, safety or efficacy, patent issues associated with the product or barriers to market entry from brand-name product manufacturers.

We contract with outside laboratories to conduct biostudies, which, in the case of oral solids, generally are required for FDA approval. Historically, the vast majority of our research and development expenditures have been on biostudies. While we believe that the companies contracted to perform the biostudies are reliable, there can be no assurance that they will use the proper due diligence or that their work will otherwise be accurate.

The scientific process of developing new products and obtaining FDA approval is complex, costly and time consuming and there can be no assurance that any products will be developed and approved despite the amount spent on research and development. The development of products may be curtailed in the early or later stages of development due to the introduction of competing generic products or for other strategic reasons.

Our Product Pipeline

Our new product development is currently focused in the following six areas:

1. Female Hormone Products

As previously reported in July, 2005, we have already entered into an agreement with Centrix Pharmaceutical, Inc. ("Centrix") for the sale of our first female hormone product. That agreement commenced upon the first shipment of the product to Centrix in August, 2005 and has a ten year term but, under certain circumstances, may be terminated by Centrix at any time after the first year of the agreement's term. Pursuant to the terms of the agreement, Centrix is required to purchase a minimum $11.5 million of the product during the first year of the agreement's term. There are also additional annual minimum purchase requirements after the first year of the agreement's term for so long as the agreement remains in effect. In the event that the Agreement is terminated at any time, or for any reason, we maintain the right to market the product alone or with a third party.

The manufacturing of the female hormone products requires a dedicated facility and equipment with special air handling that is segregated from the rest of our facility. These specialized requirements create significant barriers to entry to the female hormone product market because many companies do not invest the capital resources to develop such a facility and ensure that there is no "cross contamination" with the manufacturing area for the other products that they manufacture. We already have the necessary facility and equipment in place and therefore, our product development strategy includes expanding this product line to include a full line of oral contraceptives.

2. Scheduled Narcotics

"Scheduled" narcotics are narcotic drugs with the potential for abuse as designated pursuant to the Controlled Substances Act (CSA), 21 U.S.C. ss. 801 et. seq. These drugs require special handling, tracking and record keeping, as well as strict adherence to other Drug Enforcement Agency ("DEA") regulations, and stringent oversight and inspection by the DEA. Pursuant to a previously announced agreement with Watson Pharmaceuticals, Inc. ("Watson"), we are distributing Hydrocodone Bitartrate and Ibuprofen Tablets, 5 mg/200 mg, our own branded generic drug which is sold under the name Reprexain(R), for which we received an approval for our ANDA from the U.S. Food and Drug Administration

("FDA") on May 18, 2004. We are also currently producing, and have received an ANDA for, Hydrocodone Bitartrate and Ibuprofen Tablets, 7.5 mg/200 mg, which is a generic version of the branded drug Vicoprofen(R) under a separate agreement with Watson.

The regulatory requirements with respect to the handling, storage, segregation, filing and record keeping required for scheduled narcotics, and the inherent DEA oversight that accompanies it, create significant barriers to entry to the market for these products. We are already in compliance with these regulatory requirements. Therefore, as part of our expansion plan, we have begun development of a number of additional products in this area with the objective of expanding to a full line of scheduled narcotics.

3. Liquid Products

Our agreement with Tris is for the development and licensing to us of up to 25 liquid products. The production of these products requires dedicated equipment, and competition in this area has historically been limited.

4. Special Release Characteristics

Subsequent to year end, we amended the second agreement with Tris to increase the number of solid oral dosage products for certain drugs which have special release characteristics such as delayed release technology being developed to eight. Products such as these are often difficult to formulate, which results in limited competition and, therefore, creates an opportunity to derive greater profits. We believe that we will be able to capitalize on the technology that we will receive from Tris in that we should be able to use such technology to develop similar products in the future using our internal research and development team.

5. Softgels

Our second agreement with Tris, as amended, also provides for the development of two softgel products. Like liquid products, softgel products require dedicated equipment in a segregated area. As such, competition for softgel products is limited since many companies do not devote the capital resources to develop the infrastructure to develop these products.

6. Off-Patent Products

Over the next several years there are a large number of successful patented brand drugs for which the patents are due to expire. We have targeted a number of these drugs for development, manufacturing and sale.

For most of these products, the ability to derive and maintain market share is contingent on being able to commercially launch the product at the time of expiration of relevant patents and any exclusivity periods. Therefore, it is important that we meet our product development schedule so as to ensure our ability to commercially launch on the relevant date. In order to accomplish this goal, we have outsourced the research and development of certain of these products where doing so will allow us to file in a timely manner. In addition, as previously discussed, we are devoting many of our resources to increasing our internal product development capabilities to limit the risk that we will be late to market with these products.

We are confident that we have targeted product areas and specific products in those areas that will enable us to move away from the commodity type products

that we have historically manufactured. We have not only targeted products with a view towards revenue potential and our ability to achieve market share, but we have also been mindful of increasing the diversity of products in our pipeline, and in certain product areas, a full line of products within that area. We believe that the diversity of our pipeline will, as we launch the products, be a significant factor which should increase our ability to attract customers and achieve market share.

Recent Product Launches

We have had two product launches since June 30, 2005. First, in August, 2005, we launched our first female hormone product. Second, in September, 2005, we launched Sulfamethoxazole and Trimethoprim ("SMT") single and double strength tablets, which are sold under the name Bactrim(R). SMT is a widely used antibiotic used to treat infections such as urinary tract infections, bronchitis, ear infections (otitis), traveler's diarrhea, and Pneumocystis carinii pneumonia. We have already entered into a number of sales contracts for SMT and shipments have commenced.

Personnel

Previously, our business principally relied upon a small number of individuals who performed multiple tasks without specialization in particular areas. As part of the effort to become a full service generic company, it was necessary to add new high level management, as well as various other employees in key and specialized positions. We believe that our new management, along with our other key employees, will improve our efficiency, productivity and profitability in our existing and base businesses, which already produced approximately 4 billion tablets during the fiscal year ended June 30, 2005.

As previously reported, in January, 2005, we appointed Cameron Reid as our Chief Executive Officer. From 1992 through March 2004, Mr. Reid was the President of Dr. Reddy's Laboratories, Inc. Prior to joining Dr. Reddy's, Mr. Reid was an Executive Vice President of, and headed Roussel Corp., a division of Roussel UCLAF, a pharmaceutical company based in Montvale, New Jersey. Mr. Reid has helped us to formulate our business plan and is currently actively involved in its execution.

In order to generate new sales opportunities, assist in product selection and product development strategy and support new product launches, Jeffrey Weiss has been appointed as an Executive Vice President. Mr. Weiss has over 17 years of industry experience, most recently serving as Chief Executive Officer of Glenmark Pharmaceuticals Inc., USA and Vice President of Sales for Dr. Reddy's Laboratories, Inc.

In order to evaluate intellectual property issues internally and to assist in our product development strategy, we hired Kenneth Cappel, Esq. as our Senior Vice President of Intellectual Property. Mr. Cappel has over 16 years of experience with a number of companies including Dr. Reddy's Laboratories, Inc., Schering-Plough Research Institute and Budd-Larner, P.C.

In addition to hiring several key high level employees, we have strengthened the infrastructure of our operations at the supervisor levels and manager levels, as well as hiring a Vice President of Operations and a Director of Logistics, each of whom has extensive experience. We believe that these individuals will increase efficiency at our current facility in Hauppauge, New York which will enable us to increase capacity at that facility and increase sales on our existing product line.

Facilities

In order to support our expansion plan, we have, during the fiscal year ended June 30, 2005, upgraded our physical infrastructure, and have taken steps for future upgrades.

On June 29, 2004, we closed the acquisition of a 92,000 square foot facility on thirty seven acres of land, located in Yaphank, New York. The new facility, which is located in Suffolk County, New York's Brookhaven Empire Zone, includes an additional 16,000 square feet of mezzanine space which will be used for our research and development efforts. Interpharm now has two facilities with a combined size of over 200,000 square feet. We are currently in the process of renovating the new facility and anticipate that we will be able to commence research and development activity there by December, 2005. In addition, we are continuing our efforts to prepare the facility for manufacturing and anticipate that it will be ready for FDA inspection during the first quarter of calendar 2006.

As set forth above, during the fiscal year ended June 30, 2005, we began the process to acquire land in India for a planned approximately 40,000 square foot facility in Ahmedabad, India, which, when acquired, will be used for research and development as well as processing of bulk API in preparation for finished goods manufacturing in the United States. As set forth above, we believe that having a facility in India can allow us to capitalize on the availability of qualified scientific and other research and development personnel at significant cost savings, and could also supplement our continuing research and development activities in the United States.

Strategic Alliances:

Tris Pharma, Inc.

On February 24, 2005 Interpharm, Inc., our subsidiary, entered into two agreements with Tris for the development and licensing of up to twenty-five immediate release liquid generic products and seven solid oral dosage generic pharmaceutical products (the "Solids Contract"). In addition, we amended the Solids Contract to include an additional solid oral dosage product and two soft gel products. In the event that Tris delivers twenty-five products under the liquids agreement, of which there can be no assurance, Tris is to receive approximately $2.9 million in development fees from us and, in addition, Tris is to receive a royalty of between 10% and 12% of net profits resulting from the sales of each product. We are entitled to offset the royalty payable to Tris each year, at an agreed upon rate, to recoup the development fees paid to Tris under the liquids agreement.

Pursuant to the terms of the Solids Agreement, as amended, we and Tris are to collaborate on the development, manufacture and marketing of eight solid oral dosage generic products and two soft gel products, some of which may require us to challenge the patents for the equivalent branded products. The Solids Agreement, as amended provides for payments of an aggregate of $4.5 million to Tris. The Solids Agreement, as amended, also provides for an equal sharing of net profits for all but one product that is successfully sold and marketed, after the deduction and reimbursement to us of all costs incurred by us in the development and marketing of the solid products, including the amounts paid to Tris under the contract. The other product provides for a profit split of 60% for us and 40% for Tris.

As we develop our research and development capabilities, the Tris agreements have allowed us to bring in-house several specialized technologies which would otherwise not be available to us, and which can allow us to manufacture and sell more higher margin and profitable products.

Centrix Pharmaceutical, Inc.

As previously reported, effective in August, 2005, we commenced shipments pursuant to an agreement with Centrix whereby Centrix will have exclusive distribution rights in the United States to a female hormone product that is manufactured and supplied by Interpharm. Pursuant to its terms, the agreement became effective in August, 2005 when Interpharm commenced shipment of the product to Centrix.

The agreement has a ten year term but , under certain circumstances, may be terminated by Centrix at any time after the first year of the agreement's term is completed. Pursuant to the terms of the agreement, Centrix is required to purchase at least $11.5 million of the product during the first year of the agreement's term. There are also additional annual minimum purchase requirements after the first year of the agreement's term for so long as the agreement remains in effect. In the event that the Agreement is terminated at any time, or for any reason, the Company maintains the right to market the product alone or with a third party.

Industry

The Generic Drug Market and Necessary Approvals

Pharmaceutical products in the United States are generally marketed as either "brand-name" or "generic" drugs. Brand-name products are drugs generally sold by the holder of the drug's patent or through an exclusive marketing arrangement. A company that receives approval for a new drug application ("NDA") from the U.S. Food and Drug Administration ("FDA"), usually the patent holder, has the exclusive right to produce and sell the drug for about 20 years from the date of filing of the patent application. This market exclusivity generally provides brand-name products the opportunity to build up physician and customer loyalties.

Once a patent on a drug expires, a manufacturer can obtain FDA approval to market a "generic" version. A generic drug is therefore usually marketed after the patent on a brand drug expires and is comparable to a brand-name drug. In fact, the FDA requires that generic drugs have the same quality, strength, purity, identity and efficacy as brand-name drugs. While comparable to brand-name drugs, generic drugs are usually far less costly than brand-name drugs, resulting in substantial savings to consumers, healthcare providers and hospitals. These cost savings have resulted in sustained growth of the generic pharmaceutical industry in the United States. According to a Congressional Budget Office study, "How Increased Competition from Generic Drugs has Affected Prices and Returns in the Pharmaceutical Industry," (available at HTTP://WWW.CBO.GOV/SHOWDOC.CFM?INDEX=655&SEQUENCE=0) in 1984, 19% of prescription drugs sold in the United States were generic. According to a Federal Trade Commission Study in July, 2002, "Generic Drug Entry Prior to Patent Expiration," (available at HTTP://WWW.FTC.GOV/OS/2002/07/GENERICDRUGSTUDY.PDF) that figure reached more than 47%.

Much of the growth of the generic pharmaceutical industry has been attributed to The Drug Price Competition and Patent Term Restoration Act of 1984

(the "Waxman-Hatch Act") which encourages generic competition. Before the Waxman-Hatch Act, generic drug manufacturers had to put their products through an approval process similar to that for the original approval for brand-name drugs. Now, there is an accelerated approval process in which the generic manufacturer needs only to demonstrate to the FDA that the generic product is bioequivalent to the brand-name product through the filing of an abbreviated new drug application ("ANDA"). The ANDA may rely on information from the brand-name drug's application with the FDA.

On June 12, 2003, the FDA announced new regulations and procedures to improve implementation of the Waxman-Hatch Act. The new regulations and procedures are aimed at reducing the time it takes to bring generic drugs to the market and expanding educational programs to assist health care practitioners and consumers to get accurate information about the availability of generic drugs. The FDA has estimated that the new regulations and procedures will reduce the typical time for generic drug approvals by three months or more over the next three to five years and will save consumers approximately $35 billion over 10 years.

Government Regulation

FDA approval is required before any generic drug can be marketed through an ANDA. While the FDA has significantly streamlined the process of obtaining ANDA approval for generic drugs, it is difficult to predict how long the process will take for any specific drug. In fact, the length of time necessary to bring a product to market can vary significantly and can depend on, among other things, availability of funding, problems relating to formulation, safety or efficacy, patent issues associated with the product or barriers to market entry from brand-name product manufacturers. Therefore, there is always the risk that the introduction of new products can be delayed.

The ANDA process requires that a company's manufacturing procedures and operations conform to FDA requirements and guidelines, generally referred to as current Good Manufacturing Practices ("cGMP"). The requirements for FDA approval encompass all aspects of the production process, including validation and record keeping, and involve changing and evolving standards. Compliance with cGMP regulations requires substantial expenditures of time, money and effort in such areas as production and quality control to ensure full technical compliance. The evolving and complex nature of these regulatory requirements, the broad authority and discretion of the FDA and the generally high level of regulatory oversight result in a continuing possibility that we may be adversely affected by regulatory actions despite our efforts to comply with regulatory requirements.

The ANDA process also requires bioequivalency studies to show that the generic drug is bioequivalent to the approved drug. Bioequivalence compares the boavailability of one drug product with that of another formulation containing the same active ingredient. When established, bioequivalency confirms that the rate of absorption and levels of concentration in the bloodstream of a formulation of the approved drug and the generic drug are equivalent. Bioavailability indicates the rate and extent of absorption and levels of concentration of a drug product in the bloodstream needed to produce the same therapeutic effect.

We contract with outside laboratories to conduct biostudies. Historically, the vast majority of our research and development expenditures have been on biostudies. While we believe that the companies contracted to perform the biostudies are reliable, there can be no assurance that they will use the proper

due diligence or that their work will otherwise be accurate.

Supplemental ANDAs are required for approval of various types of changes to an approved application, and these supplements may be under review for six months or more. In addition, certain types of changes may only be approved once new bioequivalency studies are conducted or other requirements are satisfied.

The scientific process of developing new products and obtaining FDA approval is complex, costly and time consuming and there can be no assurance that any products will be developed and approved despite the amount spent on research and development. The development of products may be curtailed in the early or later stages of development due to the introduction of competing generic products or for other strategic reasons.

Even if an ANDA is approved, brand-name companies can impose substantial barriers to market entry which may include: filing new patents on drugs whose original patent protection is about to expire, developing patented controlled-release products or other product improvements, developing and marketing, as over-the-counter products, brand-name products that will soon face generic competition, and commencement of marketing initiatives, regulatory activities and litigation. While none of these actions have been taken against us to date, there can be no assurance that they will not be taken in the future, particularly as we significantly expand our product development efforts.

In addition to the Federal government, individual states have laws regulating the manufacture and distribution of pharmaceuticals, as well as regulations pertaining to the substitution of generic drugs for brand-name drugs. Our operations are subject to regulation, licensing requirements and inspection by the states in which we are located or conduct business.

We must also comply with federal, state and local laws of general applicability, such as laws regulating working conditions and equal opportunity employment. Additionally, we are subject, as are all manufacturers, to various federal, state and local environmental protection laws and regulations, including those governing the discharge of materials into the environment.

Historically, the costs of complying with such environmental provisions have not had a material adverse effect on our earnings, cash requirements or competitive position, and we do not expect such costs to have any such material adverse effect in the foreseeable future. However, if changes to such environmental provisions are made that require significant changes in our operations or the expenditure of significant funds, such changes could have a material adverse effect on our earnings, cash requirements or competitive position.

As a public company, we are subject to the Sarbanes-Oxley Act of 2002 (the "SOX Act"). The SOX Act contains a variety of provisions affecting public companies, including the relationship with its auditors, prohibiting loans to executive officers and requiring an evaluation of its disclosure controls and procedures and internal controls.

The federal government made significant changes to Medicaid drug reimbursement as part of the Omnibus Budget Reconciliation Act of 1990 ("OBRA"). Generally, OBRA provides that a generic drug manufacturer must offer the states an 11% rebate on drugs dispensed under the Medicaid program and must enter into a formal drug rebate agreement with the Federal Health Care Financing Administration. Although not required under OBRA, we have also entered into similar agreements with various states.

Continuing studies of the proper utilization, safety and efficacy of pharmaceutical products are being conducted by the pharmaceutical industry, government agencies and others. Such studies, which increasingly employ sophisticated methods and techniques, can call into question the utilization, safety and efficacy of previously marketed products. There can be no assurances that these studies will not, in the future, result in the discontinuance of product marketing.

We currently hold 7 ANDAs and, as set forth above, plan to file approximately 25 ANDAs during the two year period following the date of this report. There can be no assurances, however, that the FDA will ultimately approve the drugs that are under development or that ANDAs will be issued.

Raw Materials

Most of the raw materials that we use in the manufacturing of our products consist of pharmaceutical chemicals in various forms, which are available from various sources. FDA approval is required in connection with the process of selecting active ingredient suppliers. In selecting a supplier, we consider not only their status as an FDA approved supplier, but consistency of their products, timeliness of delivery, and price.

Marketing Strategy

During the fiscal year ended June 30, 2005, approximately 45% of our sales were made under our own label. The remaining 55% were manufactured and delivered to our wholesalers and distributors which sell our products under their own labels. In addition, during this period, two of our customers collectively accounted for approximately 45% of our total sales. For the same period in 2004, two of our customers accounted for approximately 55% of our total sales. Except as described below, we do not have contracts with any of these customers. During the fiscal year ended June 30, 2005, we had a contract with the Department of Veterans Affairs for the supply of Ibuprofen through a prime vendor, which accounted for 11% of our total sales, as compared to 10% for the fiscal year ended June 30, 2004. The loss of any of our largest customers could have a material adverse effect on our business. As is the case with our largest customers, most of our other sales for the fiscal year ended June 30, 2005 were not made pursuant to contracts, but pursuant to individual purchase orders. Therefore, although we have very strong relationships with our customers, there is nothing requiring many of them to continue to purchase our products and there can be no guarantee that they will continue to do so.

Our marketing strategy has undergone significant changes as a result of the implementation of our expansion plan. Our current marketing strategy focuses on obtaining a broader customer base and making more direct sales. With a broader customer base, we believe that we will be able to have a stable sales and production cycle for our products, as well as an easily accessible market for our new products. By making more direct sales, we believe that we can maximize value and profits by eliminating intermediaries as well as offer better customer service and improve and strengthen our customer relationships. We have begun to realize the benefits of this marketing strategy through the two recent launches of our female hormone product, as well as SMT where, in each case, we will realize significantly higher gross margins than we have historically achieved. In addition, with our launch of SMT, we have been able to make sales to national accounts as well as expand our customer base. This strategy has also provided us with benefits to our existing product line in that we have been able to sell both Ibuprofen and Naproxen to some of these new accounts.

11

Consistent with industry practice, we have a returned goods policy. Pursuant to our policy, any unopened item in its original packaging may be returned if accompanied by (i) an authorization form obtained from Interpharm, and a "Returned Goods Authorization Number" with a proof of purchase. Transportation charges for returns are paid by the customer. If the foregoing procedures are followed, we will return the customer's original purchase price or the current market price, whichever is lower.

Pursuant to our return policy, we will not accept any of the following for return: (i) short-dated products (14 months or less remaining on the expiration date), (ii) expired products, products which have been opened, tampered with or which have a broken seal, (iii) products which have stickers or other price markings, (iv) products which have been damaged by improper handling, fire, flood or other catastrophes, (v) products stored under conditions other than as specified on the label, (vi) products returned by someone other than the direct purchaser, or (vii) products without proof of purchase.

We have not experienced returns of material quantities of any of the products we sell and therefore, do not believe that we are subject to material risk of inventory buildup attributable to returns.

Products:

Interpharm's Product Line

Below is a list of the drugs that we manufacture, including the drugs that we are currently manufacturing pursuant to our agreement with URL/Mutual. The names of all of the drugs under the caption "Brand-Name Drug" are registered trademarks. The holders of the registered trademarks are non-affiliated pharmaceutical manufacturers.

12

Product Name	BRAND-NAME DRUG
1. Acetaminophen, 500 mg White Tablets	Tylenol(R)
2. Acetaminophen, 500 mg White Caplets	Tylenol(R)
3. Acetaminophen, 325 mg White Tablets	Tylenol(R)
4. Allopurinol, 100 mg White Tablets*	Zyloprim (R)
5. Allopurinol, 300 mg White Tablets*	Zyloprim (R)
6. Atenolol, 25 mg White Tablets*	Tenormin (R)
7. Atenolol, 50 mg White Tablets*	Tenormin (R)
8. Atenolol, 100 mg White Tablets*	Tenormin (R)
9. Clorpheniramine Maleate, 4mg Yellow Tablets	Chlortrimetron(R)
10. Ibuprofen, 200mg White Tablets	Advil(R)

11. Ibuprofen, 200mg Brown Tablets	Advil(R)
12. Ibuprofen, 200mg Orange Tablets	Motrin(R)
13. Ibuprofen, 200mg White Caplets	Advil(R)
14. Ibuprofen, 200mg Brown Caplets	Advil(R)
15. Ibuprofen, 200mg Orange Caplets	Motrin(R)
16. Ibuprofen, 400mg White Tablets	Motrin(R)
17. Ibuprofen, 600mg White Tablets	Motrin(R)
18. Ibuprofen, 800mg White Tablets	Motrin(R)
19. Isometheptene Mucate, Dichloralphenazone, Acetaminophen, Red/Red Capsule, 65mg/100mg/325mg	Midrane(R)
20. Naproxen, 250mg White Tablets	Naprosyn(R)
21. Naproxen, 375mg White Tablets	Naprosyn(R)
22. Naproxen, 500mg White Tablets	Naprosyn(R)
23. Pseudoephedrine HCl, 60mg White Tablets	Sudafed(R)
24. Pseudoephedrine HCl, Triprolidine HCl White Tablets, 60mg/2.5mg	Actifed(R)
25. Amitriptyline HCl Tablets, 10mg*	Endep(R) and Elavil(R)

13

26. Amitriptyline HCl Tablets, 25mg*	Endep(R) and Elavil(R)
27. Amitriptyline HCl Tablets, 50mg*	Endep(R) and Elavil(R)
28. Amitriptyline HCl Tablets, 75mg*	Endep(R) and Elavil(R)
29. Amitriptyline HCl Tablets, 100mg*	Endep(R) and Elavil(R)
30. Amitriptyline HCl Tablets, 150mg*	Endep(R) and Elavil(R)
31. Prednisone, 5mg*	Deltasone(R)
32. Prednisone, 10mg*	Deltasone(R)
33. Prednisone, 20 mg*	Deltasone(R)
34. Aspirin, 81mg	Ecotrin(R)
35. Acetaminophen and Diphenhydramine HCl Tablets, 500 mg / 25 mg	Tylenol PM(R)
36. Hydrocodone Bitartrate and Ibuprofen Tablets, 7.5 mg / 200 mg	Vicoprofen(R)
37. Hydrocodone Bitartrate and	Reprexain(R)

Ibuprofen Tablets,and 5 mg / 200 mg

* Manufactured, on a contract basis, for URL/Mutual, which holds the ANDA for the product.

COMPETITION

The generic pharmaceutical industry is intensely competitive. The primary means of competition involve manufacturing capabilities and efficiencies, innovation and development, timely FDA approval, product quality, marketing, reputation, level of service, including the maintenance of sufficient inventory levels to assure timely delivery of products, product appearance and price. Often, price is the key factors in the generic pharmaceutical business. Therefore, to compete effectively and remain profitable, a generic drug manufacturer must manufacture its products in a cost effective manner. We believe that we maintain adequate levels of inventories to meet customer demand and have them readily available. In addition, the modernization of our facility, hiring of experienced staff, and implementation of quality control programs have improved our competitive position in recent years.

During the past several years the number of chain drug stores and wholesaler customers have declined due to industry consolidation. In addition, the remaining chain drug stores and wholesaler customers have instituted buying programs that have caused them to buy more products from fewer suppliers. At the same time, mail-order prescription services and managed care organizations have grown in importance and they also limit the number of vendors. The reduction in the number of our customers and limitation on the number of vendors by the remaining customers has increased competition among generic drug marketers. However, these pressures have not had a material adverse impact on our business and we believe that we have good relationships with our key customers.

In addition to generic manufacturers, we have also experienced competition from brand-name companies that have purchased generic companies or license their products to generic companies prior to, or as relevant patents expire. No further regulatory approvals are required for a brand-name manufacturer to sell its pharmaceutical products directly or through a third party to the generic market, nor do such manufacturers face any other significant barriers for entry into such market.

As is the case with many generic pharmaceutical manufacturers, many of our competitors have longer operating histories and greater financial resources than us. Consequently, some of these competitors may have larger production capabilities, may be able to develop products at a significantly faster pace at a reduced cost, and may be able to devote far greater resources to marketing their product lines.

Certain manufacturers of brand-name drugs and/or their affiliates have been introducing generic pharmaceutical products equivalent to such brand-name drugs at relatively low prices. Such pricing, with its attendant diminished profit margins, could have the effect of inhibiting us and other manufacturers of generic pharmaceutical products from developing and introducing generic pharmaceutical products comparable to certain brand-name drugs. Also, consolidation among wholesalers, distributors, and repackagers, and technological advances in the industry and pricing pressures from large buying groups, may create pricing pressure, which could reduce our profit margins on our product lines.

In addition, increased price competition among manufacturers of generic pharmaceutical products, resulting from new generic pharmaceutical products being introduced into the market and other generic pharmaceutical products being reintroduced into the market, has led to an increase in demands by customers for downward price adjustments by the manufacturers of generic pharmaceutical products. No assurance can be given that such price adjustments, which reduce gross profit margins, will not continue, or even increase, with a consequent adverse effect on our earnings.

Brand-name companies also pursue other strategies to prevent or delay generic competition. These strategies may include: seeking to establish regulatory and legal obstacles that would make it more difficult to demonstrate bioequivalence, initiating legislative efforts in various states to limit the substitution of generic versions of certain types of brand-name pharmaceuticals, instituting legal action that automatically delays approval of generic products, the approval of which requires certifications that the brand-name drug's patents are invalid or unenforceable, or introducing "second generation" products prior to the expiration of market exclusivity for the reference product, obtaining extensions of market exclusivity by conducting trials of brand-name drugs, persuading the FDA to withdraw the approval of brand-name drugs, for which the patents are about to expire, thus allowing the brand-name company to obtain new patented products serving as substitutes for the products withdrawn, or seeking to obtain new patents on drugs for which patent protection is about to expire.

The ability of brand-name companies to successfully delay generic competition in any of our targeted new product lines may adversely affect our ability to enter into the desired product line or may impact our ability to attain our desired market share for that product.

The Food and Drug Modernization Act of 1997 includes a pediatric exclusivity provision that may provide an additional six months of market exclusivity for indications of new or currently marketed drugs if certain agreed upon pediatric studies are completed by the applicant. Brand-name companies are utilizing this provision to extend periods of market exclusivity.

BACKLOG

We do not have a significant backlog, as we normally deliver products purchased by our customers within a short time of the date of order.

PATENTS AND TRADEMARKS

We do not have any Patents or Trademarks that are currently used in our business.

EMPLOYEES

As of June 30, 2005, we had 485 full time employees. We believe we have a strong relationship with our employees. None of our employees are represented by a union.

ITEM 2. PROPERTIES

Description of Property

We lease an entire building in Hauppauge, New York, pursuant to a non-cancellable lease expiring in October, 2019, which houses our manufacturing, warehousing and some of our executive offices. The leased building is

approximately 100,000 square feet and is located in an industrial/office park. The current annual lease payments to the landlord, Sutaria Family Realty, LLC, are $480,000. Sutaria Family Realty, LLC is owned by Mona Rametra, Perry Sutaria and Raj Sutaria, who collectively own 14,683,802 shares of our common stock, 456,562 shares of our Series A-1 Preferred Stock and 1,464,567 shares of our Series K Preferred Stock and are the children of Dr. Maganlal K. Sutaria, the Chairman of our Board of Directors, and the niece and nephews of Bhupatlal K. Sutaria, our President. Mona Rametra is also the wife of our General Counsel and Secretary, Munish K. Rametra. In addition, Raj Sutaria is an officer of Interpharm, Inc. Upon a change in ownership of the Company, and every three years thereafter, the annual base rent will be adjusted to fair market value, as determined by an independent appraisal. There are no tenants in the building other than us.

We also leased approximately 23,175 square feet of office space at 69 Mall Drive in Commack, New York. The lease for this office space expired in May, 2005. The annual lease payments approximated $179,000. During the eleven months ended May, 2005, we sublet approximately18,500 square feet for approximately $138,000. We have sublet office space at 85 Adams Avenue in Hauppauge through January 31, 2006 at a cost of $8,750 per month. Thereafter we intend to move these employees to our facility in Yaphank, New York.

On June 29, 2004, pursuant to a contract entered into on November 14, 2003, and through our wholly owned subsidiary, Interpharm Realty, LLC, we purchased a 92,000 square foot facility on thirty seven acres of land, located at 50 Horseblock Road in Brookhaven, New York. The purchase price for the building and land was approximately $9.4 million. The facility is located in Suffolk County, New York's Brookhaven Empire Zone. As part of the on going renovations, we are constructing a 16,000 square foot research and development laboratory within the facility. Through June 30, 2005 we have spent an additional $4.8 million in building renovations and equipment. We anticipate the research and development portion to be operational sometime during the first fiscal quarter of fiscal 2006.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings relating to our business. Since the date of our last report on Form 10-Q for the fiscal quarter ended March 31, 2005, we are unaware of any material pending or threatened legal action or proceeding against us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fiscal quarter ended June 30, 2005.

PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS PRICE RANGE OF COMMON STOCK

Our common stock is currently traded on the American Stock Exchange under the symbol "IPA." The following table sets forth the high and low sale prices for our common stock for the periods indicated as reported by the American Stock Exchange. Such prices reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not necessarily represent actual transactions. It should be noted that prior to May 30, 2003, the Company was in the computer/systems integration business. On May 30, 2003, that business was sold and Interpharm, Inc. was acquired. Accordingly, historical stock prices prior to May 30, 2003 are not representative of our current business. On June 2, 2003, our stock symbol changed from "TEC" to "IPA."

	High	Low
2002		
Quarter ended 9/30	$ 0.44	$ 0.26
Quarter ended 12/31	0.85	0.26
2003		
Quarter ended 3/31	0.72	0.54
Quarter ended 6/30	2.93	0.62
Quarter ended 9/30	8.90	3.30
Quarter ended 12/31	5.47	4.00
2004		
Quarter ended 3/31	5.87	4.30
Quarter ended 6/30	4.80	2.45
Quarter ended 9/30	3.98	2.25
Quarter ended 12/31	3.49	2.20
2005		
Quarter ended 3/31	2.58	1.50
Quarter ended 6/30	1.65	1.23

As of September 27, 2005, there were approximately 266 holders of record of our common stock, 19 holders of record of Series A preferred shares, 290 holders of record of Series C preferred shares, 4 holders of record of Series K Preferred Stock and 2 holders of record of Series A-1 Preferred Stock.

We do not currently pay dividends on our common stock. It is our current intention not to declare or pay dividends on our common stock, but to retain earnings for the operation and expansion of our business.

The holders of our Series A and Series A-1 preferred shares are entitled to certain dividend payments upon declaration by the Board of Directors. The Series A preferred shares are entitled to a cumulative dividend of 10% of par value ($0.10 per share), when and as declared by our Board of Directors. The Series B preferred shares are entitled to a non-cumulative dividend of $1.00 per share. The Series A-1 preferred shares are entitled to a cumulative annual dividend of $0.0341 per share when and as declared by our Board of Directors (See "Series K and Series A-1 Preferred Stock" below).

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of June 30, 2005. The table includes the following plans:

1997 Stock Option Plan and 2000 Flexible Stock Plan.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-av exercise pr outstand options, wa and righ
Equity compensation plans approved by security holders:		
1997 Stock Option Plan	1,436,370	$ 1.
2000 Flexible Stock Plan(1)	11,217,500	$ 0.
Total	12,653,870	$ 1.

(1) Securities available for future issue increase each year by 10% of our outstanding common stock at the beginning of each year. The total amount of common stock available under the plan cannot exceed 20 million shares.

RECENT SALES OF UNREGISTERED SECURITIES

During the fiscal quarter ended June 30, 2005, we have made the following sales of restricted securities:

On April 4, 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 cash of approximately $627,000 during the quarter. The shares were issued in reliance upon Section 4(2) of the Securities Act.

SERIES K AND A-1 PREFERRED STOCK

The following is a summary of the designations, preferences and rights of our Series K and Series A-1 preferred stocks, which is qualified, in its entirety, by the certificate of designations, preferences and rights for the Series K and A-1 preferred stocks (the "Certificates").

Series K

- Title. $.01 par value per share Series K Convertible Preferred Stock.
- Voting. The Series K Stock is entitled to one vote per share, voting together as a class with the holders of our Common Stock.
- Liquidation Preference. None.
- Dividend Rights. Same as Common Stock.
- Redemption Provisions. None.

- Amount Authorized. 3 million shares.

- Amount Outstanding. 1,464,567

- Conversion. The Series K Stock began converting into shares of our Common Stock on June 4, 2004. On that date, 292,913 shares of Series K Stock converted into 6,274,775 shares of Common Stock. Additionally, on June 4, 2005, 292,913 shares of Series K Stock converted into 6,274,775 shares of Common Stock. Assuming that the accelerated vesting provisions of the Series K Stock Certificate described below will not apply, the Series K shares will automatically convert into a like amount on each June 4, 2006 through 2010, for an aggregate of an additional 31,373,875 shares of common stock.

Under the terms of the accelerated vesting provisions of the Series K Stock Certificate, and a separate agreement with the Series K holders in which they agreed to forego certain rights they possessed pursuant to the terms of the Series K Stock Certificate, in the event that (i) (a) any person or group other than the holders of the Series K acquires 50% or more of Interpharm's common stock or (b) if following a tender offer or proxy contest, the persons who were previously Interpharm's directors do not constitute a majority of the Board of Directors, and (ii) the Series K holders own less than 51% of Interpharm's Common Stock, additional shares of Series K may convert at the request of the Series K holders such that they own, in the aggregate, at least 51% of Interpharm's Common Stock.

While the holders of the Series K have demand registration rights with respect to the Common Stock to be issued upon conversion of the Series K, they have not exercised that right as of the date of this Report. Therefore, all common stock issued pursuant to Series K conversions aggregating 12,549,550 are restricted.

Series A-1

- Title. $.01 par value per share Series A-1 Convertible Cumulative Preferred Stock.

- Voting. No voting rights.

- Liquidation Preference. $0.682 per share.

- Dividend Rights. $0.0341 per share, per year, when and as declared by our Board of Directors.

- Redemption Provisions. None.

- Amount Authorized. 5 million shares.

- Amount Issued. 4,855,389

- Conversion. Converts on a 1:1 basis into common stock upon:

  i. the Company reaching $150 million in revenues;

  ii. a merger, consolidation, sale of assets or similar transaction; or

iii. a "Change in Control" which occurs if (a) any person, or any two or more persons acting as a group, and all affiliates of such person or persons, shall, acquire and own, beneficially, 50% or more of the common stock outstanding, or (b) if following (i) a tender or exchange offer for voting securities of the Company, or (ii) a proxy contest for the election of directors of the Company, the persons who were directors of the Company immediately before the initiation of such event cease to constitute a majority of the Board of Directors of the Company upon the completion of such tender or exchange offer or proxy contest or within one year after such completion.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents summary financial data for the years ended June 30, 2005 and 2004, the six-months ended June 30, 2003 and June 30, 2002 and the three previous years ended December 31, 2002, 2001 and 2000. The summary financial data set forth below with respect to our statements of operations for the years ended December 31, 2001 and 2000 and the balance sheet data as at June 30, 2004 and 2003 and December 31, 2002, 2001 and 2000 was derived from our consolidated financial statements which are not included in this Report. The following summary financial data should be read in conjunction with the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Report.

	Year Ended June 30, 2005	Year Ended June 30, 2004	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002 (1)	Year ended December 31, 2002
Net Sales	$39,910,970	$41,099,728	$14,953,438	$11,743,440	$24,312,245
Net (loss) income	(149,432)	3,122,821	723,645	610,802	1,050,419
(Loss) Income per common share:					
Basic	(0.01)	0.16	0.08	0.07	0.13
Diluted	(0.01)	0.04	0.02	0.02	0.03
Balance Sheet Data					
Total Assets	46,389,660	35,167,945	20,338,795	10,904,362	11,198,347
Long-term obligations	6,706,167	7,075,801	267,056	3,460,959	3,335,754
Cash dividend per common share	0	0	0	0	0

(1) Unaudited.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Overview

Interpharm Holdings, Inc., (the "Company" or "Interpharm"), through its operating wholly-owned subsidiary, Interpharm, Inc., ("Interpharm, Inc." and collectively with Interpharm, "we" or "us") is engaged in the business of developing, manufacturing and marketing generic prescription strength and over-the-counter pharmaceutical products.

We currently make sales both under our own label and to wholesalers, distributors, repackagers, and other manufacturers which sell our products under their labels. We currently manufacture and market 23 generic drug products, which represent various oral dosage strengths for 13 unique products. Of these, we hold seven Abbreviated New Drug Applications ("ANDA") for fourteen of these products. The remaining products are manufactured under an over-the-counter monogram or are drugs which do not otherwise require ANDAs. We also manufacture fourteen generic products which are various dosage strengths of four unique products for United Research Laboratories, Inc. and Mutual Pharmaceutical Company, Inc.

Our focus in the past has been primarily on cost-effective manufacturing of a limited number of products. As part of our ongoing expansion plan, we are in the process of transforming the Company into a full service generic products provider. To that end, over the past year, we have focused primarily on improving the infrastructure throughout our organization. First, we have added a number of key personnel, which includes the appointment of Cameron Reid as Chief Executive Officer, Jeffrey Weiss as an Executive Vice President in charge of sales and marketing, Kenneth Cappel as Senior Vice President of Intellectual Property, a Vice President of Operations and a Director of Logistics. These individuals have over 75 years of combined experience in the pharmaceutical industry. We also continued to hire qualified supervisors, managers and regulatory compliance personnel to improve efficiency of operations and ensure regulatory compliance. We believe that the addition of such key personnel, as well as our continued commitment to improvements in our infrastructure through capital expenditure on new equipment and upgrading current manufacturing facility, will allow us to increase capacity at that facility, thereby allowing us to pursue new customers for our existing product line. We have also focused a significant amount of our resources over the past year to accelerate our new product development.

Our marketing strategy has undergone significant changes as a result of the implementation of our expansion plan. Our current marketing strategy focuses on obtaining a broader customer base and making more direct sales. With a broader customer base, we believe that we will be able to have a stable sales and production cycle for our products, as well as an easily accessible market for our new products. By making more direct sales, we believe that we can maximize value and profits by eliminating intermediaries as well as offer better customer service and improve and strengthen our customer relationships. We have begun to realize the benefits of this marketing strategy through the two recent launches of our female hormone product, as well as Sulfamethoxazole and Trimethoprim ("SMT") where, in each case, we will realize significantly higher gross margins than we have historically achieved. In addition, with our launch of SMT, we have been able to make sales to national accounts as well as expand our customer base. This strategy has also provided us with benefits to our existing product line in that we have been able to sell both Ibuprofen and Naproxen to some of these new accounts.

During the fiscal year ended June 30, 2004, we spent approximately $538,000 on research and development. During the six-month period ended December 31, 2004, we spent approximately $539,000 on research and development. As we begun to implement our business plan during the first six months of this calendar year, we spent approximately $3,464,000 on research and development. We will continue to spend on research and development at an even more accelerated pace over the next two years.

We currently anticipate filing over 25 ANDAs over the next 24 months. In an effort to help accelerate our product development, we have entered into strategic development partnerships with third parties to supplement our internal research and development efforts. In fact, our previously announced contracts with Tris, not only accelerate our product development efforts in both liquids, softgels and drugs that exhibit certain special release characteristics, but they also allow our own research and development team to use the technology for those drugs for other products.

Our new product pipeline pursuant to our expansion plan is focused in six areas: female hormone products, scheduled narcotics, products requiring special release characteristics, liquid products, softgel products and products coming off patent. We have chosen some of these product areas because we possess existing core competencies, and because management believes that competition in these areas should be limited due to barriers to entry that we have overcome. For example, female hormone products require a dedicated and segregated facility with separate air handling and other equipment to avoid cross contamination. We have already built such a facility, have the necessary equipment and are producing female hormone products under our agreement with Centrix Pharmaceuticals, Inc. Scheduled narcotics require compliance with regulations governing their handling, storage, segregation, filing and record keeping which create a significant barrier to entry to the market for these products. We are already in compliance with these regulations and therefore, our product development strategy includes expanding this line of products to a full line of scheduled narcotics.

We have also entered into two agreements with Tris Pharma, Inc. ("Tris") for the development of up to 25 immediate release liquid generic products, eight solid oral dosage generic pharmaceutical products, and two softgel products. Liquid and softgel products require dedicated equipment in a segregated area. We are in the process of building liquid and softgel areas in our facilities. The eight solid oral dosage products contain special release characteristics which makes the formulation and further development of these products more difficult than most generic products. We believe this creates a barrier to entry and limits competition for such products. As part of our arrangement with Tris, we will bring certain specialized technology in-house, and may be able to use such technology for future product developments. We have also contracted with other third parties to develop certain products that will be coming off patent in the next few years. In order for us to maximize our market share and gross margins for these products, it will be necessary for us to be in a position to launch such products on the date of patent expiration and any applicable exclusivity periods. We believe that between our internal developments and those that we have outsourced to third parties, we can be in a good position to launch most of these products on the critical dates.

We intend to move a majority of our research and development efforts to our new facility in Yaphank, New York before the end of this calendar year. This move will increase nearly five fold our physical facilities devoted to research and development in the United States. In addition, we have begun the process to

secure land in Ahmedabad, India on which we plan to build a 40,000 square foot facility, which will be used primarily for research and development. This facility is also expected to be used for the processing of bulk active pharmaceutical ingredients ("API") in preparation for finished goods manufacturing in the United States. However, there can be no assurance that we will be successful in constructing this planned facility.

We believe that once our facility in India is operational, we will be able to capitalize on the availability of highly qualified scientific and other research and development personnel at significant cost savings, thereby supplementing our continuing research and development activities in the United States. Regulatory compliance, manufacturing of product for use in bio equivalency studies, and filing of ANDAs will all continue to be done at our research and development facility in the United States. We believe our planned India facility will reduce our reliance on third parties for the development of our product line, thereby reducing the risk that we will either not be able to develop certain products or that we will not be able to develop such products in a timely manner. We will, however, continue to evaluate opportunities with outside companies on certain products such as those requiring specialized technologies.

In order to finance our expansion plan, we have been utilizing our $21 million advised line of credit obtained from HSBC Bank. We will have to spend a significant amount of money on research and development to continue our expansion plan and have already begun to do so.

While we will continue to rely on this advised credit line, continuing with our expansion plan will be dependent on our ability to raise additional capital through either additional debt financing or through an equity investment, the availability of which cannot be assured. If we are unable to obtain sufficient funds, we will have to either delay or scale back on our expansion plan. However, we do not believe our existing business would be materially adversely affected by such delay or scaling back of our expansion plans.

			Fiscal Yea
			June 30, 2005
Revenue	Decreased	3%	$39,910,970
Gross Profit	Decreased	7%	$9,072,232
Operating (Loss) Income	Decreased	102%	$(95,012)
Net (Loss) Income	Decreased	105%	$(149,432)

Fiscal Year Ended June 30, 2005 compared to Fiscal Year Ended June 30, 2004

	For the Twelve Months Ended June 30, 2005	For the Twelve Months Ended June 30, 2004
SALES, Net	$ 39,910,970	$ 41,099,728
COST OF SALES	30,838,738	31,304,893
GROSS PROFIT	9,072,232	9,794,835

Gross Profit Percentage	22.73%	23.83%
OPERATING EXPENSES		
Selling, general and administrative expenses	5,092,270	4,124,261
Related party rent expense	72,000	72,000
Research and development	4,002,974	538,199
TOTAL OPERATING EXPENSES	9,167,244	4,734,460
OPERATING (LOSS) INCOME	(95,012)	5,060,375
OTHER INCOME (EXPENSES)		
Gain on sale of marketable securities	8,943	--
Interest expense	(136,035)	(21,367)
Interest and other income	--	69,451
TOTAL OTHER (EXPENSES) INCOME	(127,092)	48,084
(LOSS) INCOME BEFORE INCOME TAXES	(222,104)	5,108,459
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(72,672)	1,985,638
NET (LOSS) INCOME	$ (149,432)	$ 3,122,821

Net Sales

Net sales for the fiscal year ended June 30, 2005 were $39.9 million compared to $41.1 million for fiscal year ended June 30, 2004, a decrease of $1.2 million, or 2.9%. Significant components aggregating to this decrease are: (i) a decrease in sales of Allopurinol and Atenolol of $2.70 million to $7.07 million for the year ended June 30, 2005 compared to sales of $9.77 million during the year ended June 30, 2004; (ii) partially offset by increases in sales of Hydrocodone Bitartrate with Ibuprofen, and Prednisone aggregating $3.20 million; and (iii) revenue from the sale of Naproxen decreased by approximately $2.35 million on a year over year basis. Revenue for the products discussed in (i) and (ii) above are generated through a manufacturing and supply agreement with a significant customer. As such we are unable to control the revenue for these products. The fluctuations in revenue by product were not attributable to any changes in pricing which, for our entire product line, remained relatively stable.

During the fiscal year ended June 30, 2005, two key customers, in the aggregate, accounted for approximately 45% of total sales. The same two customers accounted for approximately 55% for the fiscal year ended June 30, 2004.

As previously reported in July, 2005, we have already entered into an agreement with Centrix Pharmaceutical, Inc. ("Centrix") for the sale of our first female hormone product. That agreement commenced upon the first shipment of the product to Centrix in August, 2005 and has a ten year term but, under certain circumstances, may be terminated by Centrix at any time after the first year of the agreement's term. Pursuant to the terms of the agreement, Centrix is required to purchase a minimum $11.5 million of the product during the first year of the agreement's term. There are also additional annual minimum purchase requirements after the first year of the agreement's term for so long as the agreement remains in effect. In the event that the Agreement is terminated at any time, or for any reason, we maintain the right to market the product alone or with a third party.

In September, 2005, we launched Sulfamethoxazole and Trimethoprim ("SMT") single and double strength tablets, which are sold under the name Bactrim(R). SMT is a widely used antibiotic used to treat infections such as urinary tract infections, bronchitis, ear infections (otitis), traveler's diarrhea, and Pneumocystis carinii pneumonia. We have already entered into a number of sales contracts for SMT and shipments have commenced.

Gross Profit / Cost of Sales

Gross profit for the fiscal year ended June 30, 2005 decreased approximately $0.7 million, or 7%, to $9.1 million, compared to $9.8 million for the year ended June 30, 2004. In addition, our gross profit percentage decreased 1.1 percentage points from 23.8% for the year ended June 30, 2004 to 22.7% for the year ended June 30, 2005.

Cost of sales decreased approximately $0.5 million, or 1.6% to $30.8 million for the year ended June 30, 2005, from $31.3 million for the year ended June 30, 2004, primarily due to decreased production and sales. However, it increased as a percentage of net sales primarily as a result of: (i) higher labor costs resulting from increased staffing, labor rates and payroll taxes and (ii) increases in insurance, depreciation and factory supplies. During the year ended June 30, 2005, prices for our raw materials remained relatively constant. However, as a result of recent weather / economic factors we anticipate that some of the raw materials and packaging components will likely increase in the near future.

Research and Development

During the fiscal year ended June 30, 2005, particularly during the period January, 2005 through June 2005, our research and development efforts increased significantly. We expensed approximately $0.5 million during the fiscal year ended June 30, 2004. During the first six months of fiscal 2005 we expensed $0.5 million. However during the six month period ended June 30, 2005 our research and development efforts expanded approximately seven-fold to $3.5 million or $4.0 million for the full year ended June 30, 2005. Research and development expenses were primarily for materials, wages and bioequivalence studies for new drugs currently in development. We believe that research and development expenses will represent a substantially larger percentage of our net sales in the future as we seek to expand our product line.

As previously discussed in February 2005 we, entered into two agreements with Tris for the development and licensing of up to twenty-five immediate release liquid generic products and seven solid oral dosage generic pharmaceutical products. In the event that Tris delivers twenty-five products under the liquids agreement, of which there can be no assurance, Tris is to receive approximately $2.9 million in development fees from us and, in addition, Tris is to receive a royalty of between 10% and 12% of net profits resulting from the sales of each product. We are entitled to offset the royalty payable to Tris each year, at an agreed upon rate, to recoup the development fees paid to Tris under the liquids agreement.

Pursuant to the terms of the Solids Agreement, as amended, we and Tris are to collaborate on the development, manufacture and marketing of eight solid oral dosage generic products and two soft gel products, some of which may require us to challenge the patents for the equivalent branded products. The Solids Agreement, as amended provides for payments of an aggregate of $4.5 million to Tris. The Solids Agreement, as amended, also provides for an equal sharing of

net profits for all but one product that is successfully sold and marketed, after the deduction and reimbursement to us of all costs incurred by us in the development and marketing of the solid products, including the amounts paid to Tris under the contract. The other product provides for a profit split of 60% for us and 40% for Tris.

As we develop our research and development capabilities, the Tris agreements have allowed us to bring in-house several specialized technologies which would otherwise not be available to us, and which can allow us to manufacture and sell more higher margin and profitable products.

During the year ended June 30, 2005, we recorded and paid $1.40 million to Tris.

Selling, General and Administrative

Selling, general and administrative expenses were $5.1 million for the fiscal year end June 30, 2005 or 12.8% of net sales, an increase of $1.0 million or 2.8 percentage points over the prior year total of $4.1 million, and 10% of net sales.

Major components of our selling, general and administrative expenses for the fiscal year ended June 30, 2005 included: payroll taxes and benefits $1.98 million, selling commissions $0.38 million, freight expenses $0.43 million, legal and accounting $0.38 million, insurance expense $0.18 million and professional fees of $0.25 million. Significant factors contributing to the increase in selling, general and administrative expenses are: (i)salaries, including payroll taxes and benefits increased $0.52 million from the twelve-months ended June 30, 2004 primarily due to additions during the year of a new Chief Executive Officer, as well as two other senior level executives; (ii) utilities increased $0.13 million; (iii)investor relations/listing fees increased $0.13 million and (iv) professional fees, rents and licenses aggregating $0.18 million.

We believe that general and administrative costs will likely increase during the next fiscal year as a result of our second facility becoming operational. Further, it is anticipated that selling expenses, specifically commissions will increase as a result of the anticipated increases in net sales.

In December 2004, the FASB finalized SFAS No. 123R "Share-Based Payment" which will require us to expense stock options based on grant date fair value in its financial statements beginning the first quarter of fiscal 2006. As such, in future periods we will be reporting the non-cash compensation expense.

Interest Expense

Our interest expense increased approximately $0.11 million primarily as a result of increased borrowings to fund the Yaphank location renovations and well as purchase necessary new equipment. It is likely that, as a result of additional borrowings and higher interest rates, we will incur increases in our interest expense.

Operating Income

As a result of our increase in research and development efforts described above from which we believe we will see the benefits from in the future, along with an increase in selling and general and administrative costs and a modest decrease in net sales, we incurred an operating loss of $0.95 million for the year ended June 30, 2005 compared to an operating income of $5.1 million for the

year ended June 30, 2004.

Income Taxes

For the year ended June 30, 2005 we recorded an income tax benefit of $0.07 million a decrease in income taxes of $2.06 million compared to the year ended June 30, 2004 income tax expense of $1.99 million.

Liquidity and Capital Resources

We currently finance our operations and capital expenditures through cash flows from operations and bank loans. As a result of our research and development efforts, we incurred a net loss for the fiscal year ended June 30, 2005 of approximately $0.15 million. Net cash used in operating activities for the fiscal year ended June 30, 2005 was $2.4 million, as compared to cash provided by operations of $2.1 million for the year ended June 30, 2004. Significant factors comprising the cash used in operating activities include: increases in inventories, accounts receivable and prepaid expenses and other current assets of $3.41 million, $0.81 million and $0.70 million, respectively. The increase in inventories is primarily a result of a new product launches scheduled for early in fiscal 2006 as well as necessary increases to support our customers' requirements. Offsetting the above uses of cash are increases in accounts and accrued expenses payable and depreciation and amortization of $1.56 million and $1.25 million, respectively. Other items affecting our net cash used in operating activities aggregated $0.29 million.

Bank lines of credit

On March 29, 2004, we obtained a new $21 million credit facility from HSBC. The new credit facility consists of (i) a $7.4 million mortgage loan for the purchase of our second manufacturing plant in Yaphank, New York (Note 5); (ii) $8.6 million of credit lines primarily to acquire new equipment and for renovations, and (iii) a $5 million general line of credit. Details of the new facility are as follows:

- The $7,400,000 mortgage loan is to be repaid with 119 monthly principal installments of $30,833 commencing on August 1, 2004 with the balance due June 1, 2014.
- Two advised secured credit lines aggregating $6,600,000 primarily for acquisitions of equipment and for renovations of our plant. The balance of the funds accessed through these credit lines will convert into fully amortizing 60 month term loans.
- A $2,000,000 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 fully amortizing 60 month term loans.
- The $5,000,000 advised secured line of credit is primarily for working capital and general corporate purposes.

This new credit facility is collateralized by substantially all assets of the Company. At our option interest will be calculated at (i) LIBOR plus 1.5% per annum ("PA") for 3 to 36 month periods, or at (ii) the Bank's then fixed prime rate. As of June 30, 2005, the interest rates on the working capital lines range from 4.46% PA to 5.14% PA and interest on the mortgage loan was 4.46% PA. On July 1, 2005, the mortgage loan interest rate increased to 5.19% PA and will be recalculated at December 1, 2005. The Bank will review the new credit

facility annually; the next review is scheduled to occur no later than November 30, 2005. The credit lines are terminable by the Bank at any time as to undrawn amounts. In addition, we are required to comply with certain financial covenants, and as of June 30, 2005, we were in default of three financial covenants. We have obtained a waiver from the Bank.

In addition to the outstanding borrowings at June 30, 2005, we had approximately $0.44 million outstanding under advised letters of credit. As a result, at June 30, 2005, we had approximately $3.19 million available for future borrowings. During fiscal 2005, the Company and HSBC informally agreed to consolidate the four credit lines into one advised credit line totaling $13.6 million. As a result, the $9.97 million of advances have not been allocated to each individual credit line. Because the Company and the Bank have not determined the amount of loans that are available to be converted into 60 month term loans, the entire advised credit facility is classified as current.

As previously disclosed, we entered into agreements with Tris for the development and delivery of over thirty new Technical Packages. The combined costs of these two agreements will approximate $6.75 million of which we have paid $1.4 million as of June 30, 2005. The balance on one agreement of $2.75 million could be paid within three years. The second agreement has a balance of $2.6 million and is scheduled to be paid within two years.

Future cash flows could be aided by utilization of our available Federal net operating loss carryforwards ("NOLs"). At June 30, 2005 the Company has remaining Federal NOLs of approximately $13,000,000 and State NOLs of approximately $9,290,000 expiring through 2025. Pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership, utilization of these NOLs is limited. Approximately $6,750,000 of these NOL's are available in fiscal 2006, and utilization of $6,250,000 of these NOL's is limited and becomes available after fiscal 2006. The limitations lapse at the rate of $2,690,000 per year, through fiscal 2009. In order to finance our expansion plan, we have been utilizing our $21 million advised line of credit obtained from HSBC Bank. We will have to spend a significant amount of money on research and development to continue our expansion plan and have already begun to do so.

While we will continue to rely on this advised credit line, continuing with our expansion plan will be dependent on our ability to raise additional capital through either additional debt financing or through an equity investment, the availability of which cannot be assured. If we are unable to obtain sufficient funds, we will have to either delay or scale back on our expansion plan. However, we do not believe our existing business would be materially adversely affected by such delay or scaling back of our expansion plans.

Accounts Receivable

Our accounts receivable at June 30, 2005 was $7.66 million as compared to $6.85 million at June 30, 2004. The average annual turnover ratio of accounts receivable to net sales for the fiscal years ended June 30, 2005 and 2004 was 5.5 and 6.8 turns, respectively. As our turns are calculated on an annual average, the decrease is primarily the result of credit terms for new larger customers as well as when sales are recognized during the periods. Our accounts receivable continue to have minimal risk with respect to bad debts; however this trend cannot be assured.

Inventory

At June 30, 2005, our inventory was $8.94 million as compared to $5.53 million at June 30, 2004. We believe the increase in inventory is necessary in order to maintain our future planned growth and overall customer demands. Our turnover of inventory for the years ended June 30, 2005 and 2004 was 4.3 and 6.2, respectively. Our inventory is current, there are no reserves for obsolescence.

Accounts Payable

Accounts payable, accrued expenses and other liabilities, in the aggregate, increased approximately $1.68 million, primarily attributable to the increase in inventory.

Cash and Cash Equivalents

During the year ended June 30, 2005, cash and cash equivalents decreased $2.35 million from $2.88 million at June 30, 2004 to $0.54 million at June 30, 2005, primarily, among other factors: (i) net uses of cash for components of working capital of $3.37million; (iii) cash used for the acquisition of new machinery, equipment, renovations and enhancements of the facility in Yaphank, NY, aggregating $8.11 million and (iii) investment in APR, LLC of $1.02 million. Offset by funds received from: (i) net bank borrowings of $9.21 million; (ii) proceeds from the exercise of stock options of $0.63 million.

Our Obligations

As of June 30, 2005, our obligations and the periods in which they are scheduled to become due are set forth in the following table:

Obligation	Total	Due in less than 1 Year	Due in 2-3 Years	Due in 4-5 Years	Due after 5 Years
Lines of credit (1)	$ 9,970,000	$ 9,970,000	$ --	$ --	$ --
Bank Mortgage (1)	$ 7,060,833	$ 370,000	$ 740,000	$ 740,000	$ 5,210,833
Operating lease and software license	$ 7,314,000	$ 604,000	$ 1,208,000	$ 1,022,000	$ 4,480,000
Total cash obligations	$24,344,833	$10,944,000	$ 1,948,000	$ 1,762,000	$ 9,690,833

(1) See "Bank Loans and Lines of Credit," below.

The following are financial covenants related to the lines of credit and bank loans:

- |X| Minimum debt service ratio of at least 1.25 : 1.0, on a semi-annual basis;

- |X| Maximum debt to net worth ratio of not more than 1.2 : 1.0, on an

annual basis;

|X| Interest Coverage ratio not less than 3.0 : 1:0;

|X| Current Ratio not less than 1.5 : 1.0

All Ratios shall be tested quarterly, and Debt Service Coverage Ratio and Interest Coverage Ratio shall be on a rolling four-quarter basis.

We received waivers for violating covenants which we were not in compliance with.

Bank Loans and Lines of Credit

Our advised credit lines and loans are fully described in Note 7 of the accompanying financial statements.

Leases

We lease an entire building in Hauppauge, New York, pursuant to a non-cancellable lease expiring in October, 2019, which houses our manufacturing, warehousing and some executive offices. The leased building is approximately 100,000 square feet and is located in an industrial/office park. The current annual lease payments to the landlord, Sutaria Family Realty, LLC, are $480,000. Sutaria Family Realty, LLC is owned by Mona Rametra, Perry Sutaria and Raj Sutaria. Upon a change in ownership of the Company, and every three years thereafter, the annual base rent will be adjusted to fair market value, as determined by an independent appraisal. There are no tenants in the building other than us.

Fiscal Year Ended June 30, 2004 compared to Twelve-Months Ended June 30, 2003 (All financial information for the twelve months ended June 30, 2003 is Unaudited)

	For the Twelve Months Ended June 30, 2004 Audited	For the Twelve Months Ended June 30, 2003 Unaudited
SALES, Net	$ 41,099,728	$ 27,522,243
COST OF SALES	31,304,893	22,500,414
GROSS PROFIT	9,794,835	5,021,829
Gross Profit Percentage	23.83%	18.25%
OPERATING EXPENSES		
Selling, general and administrative expenses	4,124,261	2,485,863
Related party rent expense	72,000	72,000
Research and development	538,199	452,369
TOTAL OPERATING EXPENSES	4,734,460	3,010,232
OPERATING INCOME	5,060,375	2,011,597
OTHER INCOME (EXPENSES)		
Related party interest expense	--	(163,187)

Interest expense	(21,367)	(112,860)
Interest and other income	69,451	8,229
TOTAL OTHER INCOME (EXPENSES)	48,084	(267,818)
INCOME BEFORE INCOME TAXES	5,108,459	1,743,779
PROVISION FOR INCOME TAXES	1,985,638	580,517
NET INCOME	$ 3,122,821	$ 1,163,262

Net Sales and Gross Profit

Net sales for the fiscal year ended June 30, 2004 were $41.1 million compared to $27.5 million for the twelve-months ended June 30, 2003, an increase of 49.3% or $13.6 million. Our increase in sales was attributable to increased sales of Allopurinol, Atenolol and Naproxen which totaled approximately $13.8 million for the fiscal year ended June 30, 2004 compared to approximately $1.8 million for the twelve-month period ended June 30, 2003.

We launched production of Naproxen in December 2001 and have experienced an increase in sales primarily as the result of customer awareness of our entry into this market and their willingness to increase orders. We did not sell Allopurinol during the twelve-months ended June 30, 2003.

The increase in net sales was not attributable to any change in prices which, for our entire product line, remained stable.

Gross profit for the fiscal year ended June 30, 2004 increased approximately $4.8 million, or 95%, to $9.8 million, compared to $5.0 million for the twelve-months ended June 30, 2003. In addition, our gross profit percentage increased 5.6 percentage points from 18.3% for the twelve-months ended June 30, 2003 to 23.8% for the fiscal year ended June 30, 2004. Our increased margins are primarily the result of the diversification of our product line to higher margin drugs as well as increased manufacturing efficiency.

During the fiscal year ended June 30, 2004, two customers accounted for approximately 29% and 26% of total sales, respectively.

Cost of Sales

Cost of sales increased $8.8 million to $31.3 million for the fiscal year ended June 30, 2004, or 39.1% from $22.5 million for the twelve-months ended June 30, 2003, primarily due to increased production and sales. Significant factors contributing to the increase are: (i) approximately $4.6 million, or 51.7% is attributable to the cost of raw materials, increased quantities of which were necessary due to increased production. Raw material prices were relatively constant during the period; (ii) approximately $2.0 million, or 23.0%, was for increased labor costs, including payroll taxes and benefits, and (iii) approximately $750,000 or 8.5% is attributable to increased costs of packaging, lab and factory supplies.

Research and Development

Research and development expenses for the fiscal year ended June 30, 2004 were approximately $538,000 compared to approximately $452,000 for the twelve-months ended June 30, 2003, an increase of approximately $86,000.

Research and development expenses were primarily for materials, wages and biostudies for new drugs currently in development. We believe that research and development expenses will represent a substantially larger percentage of our net sales in the future as we seek to expand our product line.

Selling, General and Administrative

Selling, general and administrative expenses were $4.1 million, in the fiscal year ended June 30, 2004, or 10.0% of net sales, compared to $2.5 million, or 9.0% of net sales, for the twelve-months ended June 30, 2003.

Selling, general and administrative expenses for the fiscal year ended June 30, 2004 were primarily made up of salaries, including payroll taxes and benefits ($1,461,000), selling commissions ($577,000), freight expenses ($419,000), legal, accounting and other professional services ($587,000), insurance expense ($170,000) and utilities ($108,000). Salaries, including payroll taxes and benefits increased $863,000, or 144.1% from the twelve-months ended June 30, 2003 due to increases in staff to accommodate increased production. Selling commissions, utilities, insurance and freight similarly increased by 226.3%, 61.2%, 48.7% and 28.7% respectively, from the twelve-months ended June 30, 2003 due to increased production and sales.

Operating Income

Operating income for the fiscal year ended June 30, 2004 increased approximately $3.1 million, or 151.6%, to approximately $5.1 million from approximately $2.0 million in the twelve-months ended June 30, 2003. The increase in operating income is primarily the result of our increasing net sales $13.6 million, diversification of our product line to higher margin drugs and increased manufacturing efficiencies.

Income Taxes

Our provision for income taxes for the year ended June 30, 2004 increased approximately $1,405,000 to $1,986,000 when compared to $581,000 for the twelve-months ended June 30, 2003. This is primarily due to the 193.0% increase in income before income taxes of $3,365,000 when comparing $5,109,000 to $1,744,000 for the fiscal year ended June 30, 2004 and the twelve-months ended June 30, 2003, respectively.

Cash Flows

We financed our operations and capital expenditures in 2004 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 income for the fiscal year ended June 30, 2004 was $3.1 million, an increase of $2.0 million from $1.1 million for the twelve-months ended June 30, 2003. Net cash provided by operating activities for the fiscal year ended June 30, 2004 was $2.1 million, as compared to $1.2 million for the same period last year. Net cash from operating activities during this period increased $2.1 million as a result of realizing $2.0 million in cash savings from the tax benefits associated with the exercise of stock options, as well as depreciation and amortization expenses of $886,000. Net cash was substantially offset by increases in accounts receivable ($2.0 million) and inventories ($947,000). The increase in inventories occurred gradually throughout the fiscal year in order to accommodate increasing demand for our products. Net cash was also offset by a decrease of $784,000 in accounts payable, accrued expenses and other liabilities. Other items affecting our net cash provided from operating

activities aggregated $192,000.

During the fiscal year ended June 30, 2004, we were able to pay down bank loans aggregating $462,000 and bank lines of credit by $1.64 million, in total approximately $2.1 million.

Net cash used in investing activities was $3.1 million for the fiscal year ended June 30, 2004, which is as a result of increases in fixed assets of $2.4 million and the down payment for a new facility of $2.0 million in Brookhaven, New York, offset by the collection of $1.5 million of notes receivable from our reverse merger with Atec Group, Inc., and the sale of property and equipment of $19,000. Net cash provided by financing activities was $1.5 million for the fiscal year ended June 30, 2004, which resulted from the receipt of $3.5 million from option exercises and $64,000 of additional cash received after the reverse merger transaction, less repayment of various bank lines and notes of approximately $2.1 million.

As a result of our cash flows from operations and financing activities during the fiscal year ended June 30, 2004, working capital increased $6.2 million to $11.7 million from $5.5 million at June 30, 2003.

Accounts Receivable

Our accounts receivable at June 30, 2004 was $6.8 million as compared to $4.9 million at June 30, 2003. This increase is primarily attributable to the increase in sales for the fiscal year ended June 30, 2004. The average number of days outstanding of our accounts receivable for the fiscal year ended June 30, 2004 was 51.6 days and for the twelve-months ended June 30, 2003 was 60.5 days.

Inventory

At June 30, 2004, our inventory was $5.5 million as compared to $4.6 million at June 30, 2003. We believe the increase in inventory is necessary in order to maintain our growth and overall customer demands. Our turnover of inventory for the year ended June 30, 2004, and for the twelve-months ended June 30, 2003 was 6.19 turns and 6.23, respectively.

Accounts Payable

Accounts payable, accrued expenses and other liabilities, in the aggregate, decreased approximately $769,000. We believed it was important to improve our relationships with key vendors. As such, during the fiscal year ended June 30, 2004, we reduced our overall accounts payable when compared to June 30, 2003.

Cash and Cash Equivalents

During the year ended June 30, 2004, cash and cash equivalents increased $548,000 from $2,336,000 at June 30, 2003 to $2,885,000 at June 30, 2004, primarily among other factor the result of: (i) collection of $1,524,000 of notes receivable associated with the reverse merger and (ii) through the collection of approximately $3,520,000 from the exercise of stock options. These inflows were offset by: (i) net cash used in operating activities of $1,947,000, consisting of net income of $3,123,000, offset by net funds used in operating

activities of $1,176,000; (ii) the cash used for the acquisition of our new facility as well as new packaging equipment and other fixed assets aggregating $4,424,000; and (iii) repayment of various bank lines of credit and bank notes payable totaling approximately $2,102,000.

For Six Months ended June 30, 2003 compared to the Six Months Ended June 30, 2002
(All June 30, 2002 financial information is unaudited.)

Financial Highlights

- Net sales increased 27.3% or $3.2 million to $14.9 million from $11.7 million.
- Gross profit increased 27.0% or $580,000 to $2.7 million from $2.1 million.
- Operating income increased 15.6% or $168,000 to $1.2 million from $1.0 million.
- Net income increased 18.5% or $113,000 to $724,000 from $611,000.

Net Sales and Gross Profit

Net sales for the six-month period ended June 30, 2003 were $15.0 million compared to $11.7 million for the six-month period ended June 30, 2002, an increase of 27.3% or $3.2 million. The increase in sales is primarily attributable to increased orders from our existing customers resulting from our increased production capacity. We launched production of Naproxen in December 2001. We have experienced an increase in our sales of Naproxen which is primarily the result of customer awareness of our entry into this market and their willingness to increase orders for Naproxen as they do for Ibuprofen. The increase in net sales was not attributable to any change in prices which, for our entire product line, remained stable. Gross profit for the six months ended June 30, 2003 was $2.7 million.

During the six months ended June 30, 2003, two customers accounted for approximately 50% of total sales.

Cost of Sales

Cost of sales increased $2.6 million to $12.2 million for the six-month period ended June 30, 2003, or 27.4% from $9.6 million for the six-month period ended June 30, 2002, primarily due to increased production and sales. Approximately $1.9 million, or 72.2% of this increase is attributable to the cost of raw materials, increased quantities of which were necessary due to increased production. Raw material prices were constant during the period. Approximately $386,000, or 14.7%, was for increased labor costs, including payroll taxes and benefits. Approximately $242,000 or 9.2% is attributable to increased costs of packaging, lab and factory supplies.

Research and Development

Research and development expenses for the six-month period ended June 30, 2003 were $186,000 or 1% of net sales, compared to $149,000, or 1% of net sales for the same period in 2002, an increase of $37,000. Research and development expenses were used primarily for materials and biostudies for new drugs currently in development.

Selling, General and Administrative

Selling, general and administrative expenses were $1.3 million, in the six-month period ended June 30, 2003, or 8.5% of net sales, compared to $900,000, or 7.6% of net sales, for the same period in 2002.

Selling, general and administrative expenses for the six-month period ended June 30, 2003 were primarily made up of salaries, including payroll taxes and benefits ($320,000), selling commissions ($91,000), freight expenses ($197,000), legal, accounting and other professional services ($252,000), insurance expense ($71,000), bad debts ($40,000), and utilities ($40,000). Salaries increased $40,000, or 14.3% from the six month period ended June 30, 2002 due to increases in staff to accommodate increased production. Legal, accounting and other professional services increased $204,000, or 429.7% from the six month period ended June 30, 2002. This increase is attributable to costs associated with the acquisition of Interpharm, Inc. by ATEC and the increased legal and accounting expenses resulting from being a public company. No sales were made to any customer whose balance was written off during the six month period ended June 30, 2003.

Operating Income

Operating income for the six-month period ended June 30, 2003 increased $168,000 to $1.2 million as compared to $1.1 million, or 15.6% as compared to the same period ended June 30, 2002. The six-month period ended June 30, 2003 included an increase of approximately $204,000 of legal, professional and accounting costs, as compared to the same period in 2002. These increased expenses are the result of the acquisition of Interpharm, Inc., by ATEC which was consummated on May 30, 2003, and the legal and accounting fees associated with being a public company. For the six-month period ended June 30, 2002, there were no such fees.

Income Taxes

The effective tax rate for the six-month period ended June 30, 2003 was 35% compared to 34% for 2002. Our deferred tax asset was primarily attributable to New York State investment tax and employment incentive tax credits. The tax credits utilized are limited to the state taxes computed on the minimum taxable income base. These tax credits also expire in 15 years if not utilized. We estimated a reserve for the deferred tax asset based upon prior years' actual credits utilized and projected credits to be utilized on future taxable income. The valuation allowance reserve has decreased due to our increased taxable income which has utilized more credits and our estimate of future growth which has reduced the estimated credits that will not be utilized.

Cash Flows

Cash flows from operations were $200,000 during the six-month period ended June 30, 2003. As a result of Interpharm, Inc.'s cash flows from operations during the six-month period ended June 30, 2003 and the sale of Atec Group, Inc.'s computer operations on May 30, 2003, working capital increased $2.9 million to $5.2 million from $2.3 million at December 31, 2002.

Net cash used in investing activities for the six-month period ended June 30, 2003 was approximately $1.0 million related to the purchase of production equipment.

During the six-month period ended June 30, 2003, we generated approximately $3.1 million including approximately $2.1 million (net of $190,000 of costs) from the reverse merger with ATEC and $1.0 million of proceeds from our bank credit line. The exercise of 2,187,863 options from July 1, 2003 to September 12, 2003 resulted in cash proceeds to us of $2.7 million. These options were outstanding prior to the closing of the transaction with ATEC.

In August 2003, we increased our credit lines from $3.5 million (at December 31, 2002) to $7 million. In addition, we retired approximately $3.3 million in related party loans to Interpharm in exchange for our Series A-1 Preferred Stock.

Accounts Receivable

Our accounts receivable at June 30, 2003 was $4.9 million as compared to $4.2 million at December 31, 2002. This increase is primarily attributable to the increase in sales for the six-month period ended June 30, 2003. The average number of days outstanding of our accounts receivable for the six-month period ended June 30, 2003 consistently ranged from 54 to 59 days.

Inventory

In late 2000 and early 2001, Interpharm, Inc. commenced a program to increase inventory production levels to meet demand created by increasing sales. At June 30, 2003, our inventory increased to $4.6 million from $3.4 million at December 31, 2002, which is a level we believe to be sufficient to meet demand.

Accounts Payable

The accounts payable, accrued expenses and other liabilities increased approximately $1.2 million and amounts due on our working capital credit line increased $1.1 million from December 31, 2002. This increase is primarily attributable to increased inventory production to meet demand.

40

Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2003 were $2.3 million as compared to $106,000 at December 31, 2002, an increase of $2.2 million. This increase is primarily attributable to the proceeds from the sale of ATEC computer operations, Interpharm, Inc.'s cash flow from operating activities and net bank borrowings of approximately $1.0 million. Offsetting these events were equipment purchases of $1,031,000 during the six month period ending June 30, 2003.

From time to time in the past, Interpharm, Inc.'s shareholders, directors, and officers had made loans to it for working capital. As of December 31, 2002, each of theses loans was paid by Interpharm, Inc. with the exception of a loan with a $3.0 million principal balance from Dr. Maganlal K. Sutaria to Interpharm, Inc. and a $311,375 loan from a shareholder. Both loans were converted into Series A-1 preferred stock on May 30, 2003.

41

From time to time in the past, Interpharm, Inc.'s shareholders, directors and officers had made loans to it for working capital. As of December 31, 2002, each of these loans was paid by Interpharm, Inc. with the exception of a loan with a balance of $304,750 from Mona Sutaria and a loan with a $3 million

principal balance from Dr. Maganlal K. Sutaria to Interpharm, Inc. The $3,000,000 loan reflected in Interpharm, Inc.'s December 31, 2002 financial statements has a maturity date of January 1, 2012. Repayment of this loan was subordinated to Interpharm, Inc.'s bank debt.

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 ongoing 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 its financial statements and the uncertainties that could impact results of operations, financial condition and cash flows.

Revenue from the sale of Interpharm products are recognized upon shipment of the product. Upon a review of specific accounts and historical experience we record, when necessary, a provision for allowances, chargebacks, returns and other sales credits based. These provisions have been recorded as a reduction of sales in the consolidated statements of operations.

We purchase raw materials from two suppliers, which are manufactured into finished goods and sold back to such suppliers as well as to other customers. We can, and do, purchase raw materials from other suppliers. We also (i) have the general inventory risk of loss associated with the raw materials purchased; (ii) negotiate the selling price for the finished product; (iii) significantly change the raw material into a finished product based upon our specifications, and (iv) have the option to obtain the raw materials from alternate sources. 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.

Allowance for Doubtful Accounts

We record allowances for doubtful accounts based upon customer specific analysis and assessment of past-due balances. Additional allowances for doubtful accounts may be required if there is an increase in past-due balances or for customer specific circumstances. The allowance for doubtful accounts was $65,684 at June 30, 2005 and $74,166 at June 30, 2004.

Inventory

Our inventories are valued at the lower of cost or market, determined on a first-in, first -out basis, and include 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.

Income Taxes

We account for income taxes using the liability method which requires the determination of deferred tax assets and liabilities based on the differences between the financial and tax bases of assets and liabilities using enacted tax rates in effect for the year in which differences are expected to reverse. The net deferred tax asset is adjusted by a valuation allowance, if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. Our net deferred tax asset at June 30, 2005 was $4.413 million and $4.182 million at June 30, 2004.

Recent New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS No.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 No. 151 are effective for the Company's fiscal year 2006. The Company is currently evaluating the provisions of SFAS No. 151 and does not expect that adoption will have a material impact on its financial position, results of operations, or cash flows.

In December 2004, the FASB finalized SFAS No. 123R amending SFAS No. 123, effective beginning the first quarter of fiscal 2006. SFAS No. 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 No. 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. The Company leases its premises from Sutaria Realty Family Trust ("Trust"). The Trust is owned directly or indirectly by two officers of the Company (see Note 8). The Company has reviewed the provisions of this Staff Position and determined that the Trust is not a VIE that needs to be consolidated.

In October 2004, the FASB ratified, the consensus reached by the EITF with respect to Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share." The EITF's consensus states that shares of common stock contingently issuable pursuant to contingent convertible securities should be included in diluted earnings per share computations (if dilutive) regardless of whether their market price triggers (or other contingent features) have been met. EITF 04-8 was effective for reporting periods ending after December 15, 2004. As further discussed in Note 10 the only contingently convertible securities we have are the shares of Series A-1 preferred stock. Since the

contingency is not based on market price EITF No. 04-8 is not applicable to the Company.

In December 2004, the FASB issued SFAS No. 153 (SFAS 153), "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for periods beginning after June 15, 2005. We do not expect that adoption of SFAS 153 will have a material effect on our consolidated financial position, consolidated results of operations, or liquidity.

ISSUE 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 7A. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Our principal financial instrument currently is a $21.0 million credit facility. At June 30, 2005, approximately $7.1 million mortgage note payable and borrowings of $9.97 million under the line of credit was outstanding. Any obligations created under this credit facility incur interest calculated at our option at (i) LIBOR plus 1.5% PA for periods ranging in length from 3 to 36 months, or (ii) at the Bank's then fixed prime rate. At June 30, 2005, the interest rates on the borrowings ranged from 4.46% PA to 5.14% PA and the interest rate on the mortgage note payable was 4.46% PA.

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.

If principal amounts outstanding under our credit facilities remained at the year end level for an entire year and our effective interest rate increased or decreased by 1%, we would pay or save, respectively, approximately $0.17 million in interest that year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, including the notes thereto, together with the report from our independent registered public accounting firm are presented beginning at page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During the previous two fiscal years, and the subsequent interim period, our accountant has not resigned, declined to stand for re-election and was not dismissed. During the previous two fiscal years, and the subsequent interim period, there were no material disagreements with Interpharm, Inc.'s accountant with respect to any matter.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF CONTROLS AND PROCEDURES

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

At the conclusion of the period ended June 30, 2005, we carried out an evaluation, under the supervision and with the participation of our management, including our 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 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

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, 2005, MK had discovered conditions which they deemed to be significant deficiencies, (as defined by standards established by the Public Company Accounting Oversight Board) in our financial statement closing process. The significant deficiencies related to the performance of processes and procedures for the period end closing process and its review by internal accounting personnel. Management has informed MK and the Audit Committee that it will add additional personnel and modify its controls over the financial statement closing process to prevent reoccurrences of this deficiency and will continue to monitor the effectiveness of these actions and will make any other changes or take such additional actions as management determines to be appropriate.

Management does not believe that the above significant deficiencies affected the results of the fiscal quarter ended June 30, 2005 or any prior period

ITEM 9B - OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference to the section entitled "Directors and Executive Officers of the Registrant " of the 2005 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the section entitled "Executive Compensation " of the 2005 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters " of the 2005 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Lease

Our 100,000 square foot facility at 75 Adams Avenue in Hauppauge, New York is owned by Sutaria Family Realty, LLC which is owned by Perry Sutaria, Raj Sutaria and Mona Rametra.

No third party assessment or appraisal of the lease was made at the time it was entered into or at any subsequent time. Interpharm, Inc. is obligated to pay minimum annual rent of $480,000, plus property taxes, insurance, maintenance and other expenses related to the leased facility. Upon a change in ownership of the Company, and every three years thereafter, the annual rent will be adjusted to fair market value, as determined by an independent third party.

Investment in APR, LLC.

In February and April 2005, we purchased 5.0 Class A membership interests ("Interests") from each of Cameron Reid ("Reid"), the Company's Chief Executive Officer, and John Lomans ("Lomans"), who has no affiliation with us, for an aggregate purchase price of $1,022,500 (including costs of $22,500) 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 us 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 100 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 our major customers and suppliers. As a result, we currently own 10 Interests out of the 100 Interests now outstanding.

In accordance with the terms of the Purchase Agreements, we have granted to Reid and Lomans each a proxy to vote 5 of the Interests owned by us on all matters on which the holders of Interests may vote. Our 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 deliberations on this matter. We are accounting for our investment in APR pursuant to the cost method of accounting.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated herein by reference to the section entitled "Principal Accounting Fees and Services" of the 2005 Proxy Statement.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) FINANCIAL STATEMENTS

The following financial statements of Interpharm Holdings, Inc., are included herein:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2005 and June 30, 2004

Consolidated Statements of Operations for the years ended June 30, 2005 and 2004, for the six-months ended June 30, 2003 and 2002 (unaudited) and for the year ended December 31, 2002

Consolidated Statement of Stockholders' Equity for the years ended June 30, 2005 and 2004, for the six-months ended June 30, 2003 and for the year ended December 31, 2002

Consolidated Statements of Comprehensive (Loss) Income for the years ended June 30, 2005 and 2004, for the six-months ended June 30, 2003 and 2002 (unaudited) and for the year ended December 31, 2002

Consolidated Statements of Cash Flows for the years ended June 30, 2005 and 2004, for the six-months ended June 30, 2003 and 2002 (unaudited) and for the year ended December 31, 2002

(2) OTHER SCHEDULES

All other schedules are omitted since the required information is not present or is not present in an amount sufficient to require submission of schedules, or because the information required is included in the financial statements and notes thereto.

(3) EXHIBITS

See (c) below.

(b) REPORTS ON FORM 8-K

We filed the following reports on Form 8-K in the quarter ended June 30, 2005:

REPORT DATE	ITEM REPORTED
May 26, 2005	5.02 - Resignation of Surinder Rametra as executive Officer - Business Development

(c) EXHIBITS

Number	Description
3.1	Certificate of Incorporation of the Company; (1)
3.2	Certificate of Amendment of Certificate of Incorporation, filed October 21, 1992; (1)
3.3	By-laws of the Company; (1)
3.4	Certificate of Amendment of Certificate of Incorporation, filed December 22, 1992; (1)
3.5	Form of Certificate of Powers, Designations, Preferences and Rights of the Series A 10% Cumulative Convertible Preferred Stock; (1)
3.6	Certificate of Powers, Designations, Preferences and Rights of the Series K Convertible Preferred Stock; (1)
3.7	Certificate of Powers, Designations, Preferences and Rights of the Series A-1 Convertible Preferred Stock; (1)
4.7	Form of Common Stock Certificate; (1)
4.9	Form of Preferred Stock Certificate; (1)
10.1	November 25, 2002 Capital Stock Exchange Agreement; (2)
10.2	January 24, 2002 agreement between Interpharm, Inc. and URL/Mutual (3);
10.3	Form of Employment Agreements for Interpharm Holdings, Inc. employees (3);
10.4	December 5, 2002 Department of Veterans Affairs acceptance of Interpharm, Inc.'s bid to supply Ibuprofen Tablets (3);

10.5	Contract of Sale for Land and Building at 50 Horseblock Rd., Yaphank, NY
10.6	Supply Agreement between Interpharm Holdings, Inc. and Centrix Pharmaceutical, Inc. for Development of Liquid Products
10.7	February 24, 2005 Agreement between Interpharm Holdings, Inc. and Tris Pharma, Inc. for development of Solid Products;
10.8	July 6, 2005 amendment to February 24, 2005 Agreement between Interpharm Holdings, Inc. and Tris Pharma, Inc. for development of Solid Products
10.9	Supply Agreement between Interpharm Holdings, Inc. and Centrix Pharmaceutical, Inc. (4)
21.1	List of Subsidiaries;
23.1	Consent of Marcum & Kliegman, LLP;
31.1	Certification of Dr. Maganlal K. Sutaria pursuant to Exchange Act Rules 13a-15(d) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;

31.2 Certification of George Aronson pursuant to Exchange Act Rules 13a-15(d) and 15d-15(e), 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;

99.1 Form of Incentive Stock Option Agreement (3);

99.2 Form of Non-Qualified Stock Option Agreement (3);

99.3 Interpharm Holdings, Inc. Code of Ethics;

99.4 Interpharm Holdings, Inc. Nominating Committee Charter.

Footnotes:

1. Incorporated by reference from Registration Statement on Form SB-2 registration no. 33-54356 filed by the Company with the Securities and Exchange Commission on November 9, 1992.

2. Annexed to our Current Report on Form 8-K filed on November 26, 2002 and incorporated herein by reference;

3. Annexed to our Transition Report on Form 10-K filed on September 29, 2003 and incorporated herein by reference.

4. Annexed to our Current Report on Form 8-K filed on July 18, 2005 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By /s/ Cameron Reid

Cameron Reid, Chief Executive Officer

Dated: September 28, 2005

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ George Aronson September 28, 2005

George Aronson, Chief Financial Executive Officer

/s/ Bhupatlal K. Sutaria September 28, 2005

Bhupatlal K. Sutaria, President and Treasurer	
/s/ Dr. Maganlal K. Sutaria	September 28, 2005
Dr Maganlal K. Sutaria, Chairman of the Board of Directors	
/s/ Dr. Mark Goodman	September 28, 2005
Dr. Mark Goodman, Director	
/s/Stewart Benjamin	September 28, 2005
Stewart Benjamin, Director	
/s/David Reback	September 28, 2005
David Reback, Director	
/s/ Kennith C Johnson	September 28, 2005
Kennith C Johnson, Director	

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2005 and 2004, for the Six Months Ended June 30, 2003 and 2002 (Unaudited) and for the Year Ended December 31, 2002

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM

To the Audit Committee of
Interpharm Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Interpharm Holdings, Inc. and Subsidiaries (the "Company") as of June 30, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, comprehensive (loss) income and cash flows for the years then ended and for the six month period ended June 30, 2003, and for the year ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interpharm Holdings, Inc. and Subsidiaries at June 30, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended and for the six month period ended June 30, 2003, and the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Melville, New York
September 27, 2005

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30,	
	2005	2004

CURRENT ASSETS		
Cash and cash equivalents	$ 536,630	$ 2,884,639
Marketable securities, at fair market value	--	36,791
Accounts receivable, net	7,664,148	6,849,778
Inventories, net	8,940,734	5,530,161
Prepaid expenses and other current assets	1,155,770	453,157
Deferred tax assets	87,000	1,280,000
Total Current Assets	18,384,282	17,034,526
Land, building and equipment, net	21,871,798	15,007,132
Deferred tax assets	4,326,000	2,902,000
Investment in APR, LLC	1,022,500	--
Deposits	785,080	224,287
TOTAL ASSETS	$ 46,389,660	$ 35,167,945

The accompanying notes are an integral part of these consolidated financial statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2005	
CURRENT LIABILITIES		
Current maturities of bank debt	$ 10,340,000	$
Accounts payable, accrued expenses and other liabilities	6,232,586	
Total Current Liabilities	16,572,586	
OTHER LIABILITIES		
Bank debt, less current maturities	6,690,833	
Other liabilities	15,334	
Total Other Liabilities	6,706,167	
TOTAL LIABILITIES	23,278,753	

COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stocks, 10,000,000 shares authorized; issued and outstanding - 6,608,233 and 6,902,963, respectively; aggregate liquidation preference of $5,483,095 and $5,494,080, respectively	343,315	
Common stock, $0.01 par value,70,000,000 shares authorized; shares issued - 32,338,607 and 25,591,311 respectively	323,386	
Additional paid-in capital	19,104,035	
Accumulated other comprehensive loss	--	
Retained earnings	3,340,171	
Treasury stock at cost, 624,145 shares in 2004	--	
TOTAL STOCKHOLDERS' EQUITY	23,110,907	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 46,389,660	$

The accompanying notes are an integral part of these consolidated financial statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30,	
	2005	2004
SALES, Net	$ 39,910,970	$ 41,099,7
COST OF SALES (including related party rent expense of $408,000 for the years ended June 30, 2005 and 2004, $204,000 for the six months ended June 30, 2003 and 2002 and $408,000 for the year ended December 31, 2002)	30,838,738	31,304,8
GROSS PROFIT	9,072,232	9,794,8
OPERATING EXPENSES		
Selling, general and administrative	5,092,270	4,124,2
Related party rent	72,000	72,0
Research and development	4,002,974	538,1

TOTAL OPERATING EXPENSES	9,167,244	4,734,4
OPERATING (LOSS) INCOME	(95,012)	5,060,3
OTHER INCOME (EXPENSES)		
Gain on sale of marketable securities	8,943	
Related party interest expense	--	
Interest expense	(136,035)	(21,3
Interest and other income	--	69,4
TOTAL OTHER (EXPENSES) INCOME	(127,092)	48,0
(LOSS) INCOME BEFORE INCOME TAXES	(222,104)	5,108,4
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(72,672)	1,985,6
NET (LOSS) INCOME	(149,432)	3,122,8
INCOME ATTRIBUTABLE TO PREFERRED STOCKHOLDERS	165,569	360,0
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (315,001)	$ 2,762,7
(LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS		
Basic (loss) earnings per share	$ (0.01)	$ 0.
Diluted (loss) earnings per share	$ (0.01)	$ 0.
Basic weighted average shares outstanding	25,683,726	17,594,9
Diluted weighted average shares and equivalent shares outstanding	25,683,726	68,637,1

	Year Ended December 31,
	2002
SALES, Net	$ 24,312,245
COST OF SALES (including related party rent expense of $408,000 for the years ended June 30, 2005 and 2004, $204,000 for the six months ended June 30, 2003 and 2002 and $408,000 for the year ended	

December 31, 2002)	19,872,936
GROSS PROFIT	4,439,309
OPERATING EXPENSES	
Selling, general and administrative	2,107,694
Related party rent	72,000
Research and development	415,618
TOTAL OPERATING EXPENSES	2,595,312
OPERATING (LOSS) INCOME	1,843,997
OTHER INCOME (EXPENSES)	
Gain on sale of marketable securities	--
Related party interest expense	(188,125)
Interest expense	(102,103)
Interest and other income	63
TOTAL OTHER (EXPENSES) INCOME	(290,165)
(LOSS) INCOME BEFORE INCOME TAXES	1,553,832
(BENEFIT FROM) PROVISION FOR INCOME TAXES	503,413
NET (LOSS) INCOME	1,050,419
INCOME ATTRIBUTABLE TO PREFERRED STOCKHOLDERS	262,605
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 787,814
(LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS	
Basic (loss) earnings per share	$ 0.13
Diluted (loss) earnings per share	$ 0.03
Basic weighted average shares outstanding	6,151,178
Diluted weighted average shares and equivalent shares outstanding	35,935,062

The accompanying notes are an integral part of these consolidated financial statements.

F-4

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		
	Shares	Amount	Sha
BALANCE - January 1, 2002	2,050,393	$ 20,504	6,1
Unrealized loss on marketable securities, net	--	--	
Net income	--	--	
BALANCE - December 31, 2002	2,050,393	20,504	6,1
Outstanding equity securities of ATEC Group, Inc.	395,094	282,963	9,4
Conversion of related party notes payable to Series A-1 preferred stock	4,855,389	48,554	
Shares issued for options exercised	--	--	
Unrealized gain on marketable securities, net	--	--	
Net income	--	--	
BALANCE - June 30, 2003	7,300,876	352,021	15,6
Shares issued for options and warrants exercised	--	--	3,5
Tax benefit in connection with exercise of stock options	--	--	
Adjustments related to reverse merger	--	--	
Conversion of Series J preferred stock	(105,000)	(1,050)	1
Conversion of Series K preferred stock	(292,913)	(2,929)	6,2
Unrealized loss on marketable securities, net	--	--	
Net income	--	--	
BALANCE - June 30, 2004	6,902,963	348,042	25,5
Shares issued for options exercised	--	--	1,0
Tax benefit in connection with exercise of stock options	--	--	
Redemption of Series A preferred stock	(20)	(1)	
Conversion of Series C preferred stock	(1,797)	(1,797)	
Conversion of Series K preferred stock	(292,913)	(2,929)	6,2

Unrealized gain on marketable securities, net	--	--	
Retirement of treasury stock	--	--	(6
Dividends declared - Series A-1	--	--	
Net loss	--	--	
BALANCE - June 30, 2005	6,608,233	$ 343,315	32,3

	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retai Earni (Defi
BALANCE - January 1, 2002	$ 2,287,984	$ 2,443	$ (1,1
Unrealized loss on marketable securities, net	--	(3,334)	
Net income	--	--	1,0
BALANCE - December 31, 2002	2,287,984	(891)	(
Outstanding equity securities of ATEC Group, Inc.	6,494,432	--	
Conversion of related party notes payable to Series A-1 preferred stock	3,262,821	--	
Shares issued for options exercised	31,000	--	
Unrealized gain on marketable securities, net	--	12,470	
Net income	--	--	7
BALANCE - June 30, 2003	12,076,237	11,579	6
Shares issued for options and warrants exercised	3,484,784	--	
Tax benefit in connection with exercise of stock options	3,679,100	--	
Adjustments related to reverse merger	3,989	--	
Conversion of Series J preferred stock	--	--	
Conversion of Series K preferred stock	(59,819)	--	
Unrealized loss on marketable securities, net	--	(11,671)	
Net income	--	--	3,1
BALANCE - June 30, 2004	19,184,291	(92)	3,7

Shares issued for options exercised	616,400	--	
Tax benefit in connection with exercise of stock options	153,000	--	
Redemption of Series A preferred stock	(7)	--	
Conversion of Series C preferred stock	1,797	--	
Conversion of Series K preferred stock	(59,819)	--	
Unrealized gain on marketable securities, net	--	92	
Retirement of treasury stock	(791,627)	--	
Dividends declared - Series A-1	--	--	(3
Net loss	--	--	(1
BALANCE - June 30, 2005	$ 19,104,035	$ --	$ 3,3

	Treasury Stock		Tot Stockh
	Shares	Amount	Equ
BALANCE - January 1, 2002	--	$ --	$ 1,2
Unrealized loss on marketable securities, net	--	--	
Net income	--	--	1,0
BALANCE - December 31, 2002	--	--	$ 2,3
Outstanding equity securities of ATEC Group, Inc.	624,145	(797,868)	6,0
Conversion of related party notes payable to Series A-1 preferred stock	--	--	3,3
Shares issued for option exercised	--	--	
Unrealized gain on marketable securities, net	--	--	
Net income	--		7
BALANCE - June 30, 2003	624,145	(797,868)	12,4
Shares issued for options and warrants exercised	--	--	3,5
Tax benefit in connection with exercise of stock options	--	--	3,6
Adjustments related to reverse merger	--	--	
Conversion of Series J preferred stock	--	--	

Conversion of Series K preferred stock	--	--	
Unrealized loss on marketable securities, net	--	--	(
Net income	--	--	3,1
BALANCE - June 30, 2004	624,145	(797,868)	22,7
Shares issued for options exercised	--	--	6
Tax benefit in connection with exercise of stock options	--	--	1
Redemption of Series A preferred stock	--	--	
Conversion of Series C preferred stock	--	--	
Conversion of Series K preferred stock	--	--	
Unrealized gain on marketable securities, net	--	--	
Retirement of treasury stock	(624,145)	797,868	
Dividends declared - Series A-1	--	--	(3
Net loss	--		(1
BALANCE - June 30, 2005	--	$ --	$ 23,1

The accompanying notes are an integral part of these consolidated financial statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Year Ended June 30,		Six Months Ended June 30,	
	2005	2004	2003	2002
				(Unaudited)
NET (LOSS) INCOME	$ (149,432)	$ 3,122,821	$ 723,645	$ 610,802
OTHER COMPREHENSIVE (LOSS) INCOME				
Unrealized gain (loss) on marketable securities, net	92	(11,671)	12,470	(3,677)
TOTAL COMPREHENSIVE (LOSS) INCOME	$ (149,340)	$ 3,111,150	$ 736,115	$ 607,125

The accompanying notes are an integral part of these consolidated financial statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		Six Months End
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	$ (149,432)	$ 3,122,821	$ 723,645
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Gain on sale of marketable securities	(8,943)	--	--
Depreciation and amortization	1,247,823	886,141	317,034
Deferred tax (benefit) expense	(78,000)	1,998,500	116,100
Accrued interest on related party loans	--	--	6,625
Provision for doubtful accounts	--	40,000	40,200
Gain on disposal of equipment	--	(2,554)	--
Changes in operating assets and liabilities:			
Accounts receivable	(814,370)	(1,959,669)	(812,167)
Inventories	(3,410,573)	(946,956)	(1,194,106)
Prepaid expenses and other current assets	(702,613)	(229,008)	(152,671)
Accounts payable, accrued expenses and other liabilities	1,563,430	(783,563)	1,155,772
TOTAL ADJUSTMENTS	(2,203,246)	(997,109)	(523,213)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,352,678)	2,125,712	200,432
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of marketable securities	45,826	--	--
Payments for deposits	(560,793)	(178,414)	--
Purchase of marketable securities	--	--	--
Proceeds from notes receivable	--	1,524,092	--
Proceeds from sale of equipment	--	19,000	--
Investment in APR, LLC	(1,022,500)	--	--
Purchases of land, building and equipment	(8,112,489)	(4,424,417)	(1,031,403)

NET CASH USED IN INVESTING ACTIVITIES	$ (9,649,956)	$ (3,059,739)	$ (1,031,403)

The accompanying notes are an integral part of these consolidated financial statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

	Year Ended June 30,		Six Months Ended June 30,	
	2005	2004	2003	2002
				(Unaudite
CASH FLOWS FROM FINANCING ACTIVITIES				
(Repayments of) proceeds from advised credit facility - old	$ (424,847)	$ (2,101,708)	$ 962,625	$ (98,4
Borrowings from advised credit facility - new	9,970,000	--	--	
Repayments of mortgage notes	(339,167)	--	--	
Due to related parties	--	--	--	(24,0
Payment of Series A-1 preferred stock dividend	(178,719)	--	--	
Redemption of Series A convertible preferred stock	(8)	--	--	
Cash received in reverse merger transaction	--	64,029	2,067,510	
Proceeds from options and warrants exercised	627,366	3,520,142	31,250	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	9,654,625	1,482,463	3,061,385	(122,4
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,348,009)	548,436	2,230,414	(140,2
CASH AND CASH EQUIVALENTS - Beginning	2,884,639	2,336,203	105,789	583,8
CASH AND CASH				

EQUIVALENTS - Ending	$ 536,630	$ 2,884,639	$ 2,336,203	$ 443,6

The accompanying notes are an integral part of these consolidated financial statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

	Year
	2005
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the periods for:	
Interest	$ 98,
Income Taxes	$ 31,
Tax benefit in connection with exercise of stock options	$ 153,
Mortgage loan utilized to acquire new facility (Note 7)	$
Conversion of related party notes payable to Series A-1 preferred stock	$
Reverse merger (see Note 1)	
Cash received, net of $190,051 of transaction costs paid in 2003	$
Equipment	
Notes receivable	
Deposits	
Deferred tax assets	
Accounts payable	
Other liabilities	
Net assets obtained in reverse merger transaction	$

	Six Mont
	2003
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the periods for:	
Interest	$ 125,7
Income Taxes	$ 348,3
Tax benefit in connection with exercise of stock options	$
Mortgage loan utilized to acquire new facility (Note 7)	$
Conversion of related party notes payable to Series A-1 preferred stock	$ 3,311,3
Reverse merger (see Note 1)	
Cash received, net of $190,051 of transaction costs paid in 2003	$ 2,067,5
Equipment	11,9
Notes receivable	1,524,0
Deposits	34,4
Deferred tax assets	2,610,0
Accounts payable	(144,0
Other liabilities	(29,5
Net assets obtained in reverse merger transaction	$ 6,074,4

	Year Ended December 31,
	2002
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the periods for:	
Interest	$ 412,

Income Taxes	$ 405,
Tax benefit in connection with exercise of stock options	$
Mortgage loan utilized to acquire new facility (Note 7)	$
Conversion of related party notes payable to Series A-1 preferred stock	$
Reverse merger (see Note 1)	
Cash received, net of $190,051 of transaction costs paid in 2003	$
Equipment	
Notes receivable	
Deposits	
Deferred tax assets	
Accounts payable	
Other liabilities	
Net assets obtained in reverse merger transaction	$

The accompanying notes are an integral part of these consolidated financial statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

Nature of Business

Interpharm Holdings, Inc. and Subsidiaries (the "Company") 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.

All references below to the six months ended June 30, 2002 are unaudited.

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 ("Series K"), 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 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. For additional information concerning these equity securities, please see Note 11.

Since this transaction is in substance a recapitalization of Interpharm, Inc. and not a business combination, the reverse merger with ATEC has been recorded based on the fair value of ATEC's net tangible assets, which consist primarily of cash, equipment, notes receivable, deposits and a deferred tax asset with an aggregate value of $6,078,511 (net of transaction costs of $190,051). Accordingly, pro forma information is not presented. The recapitalization has been given retroactive effect in the accompanying financial statements. The accompanying consolidated financial statements represent those of Interpharm, Inc. for all periods prior to the consummation of the reverse merger.

Principles of Consolidation

The consolidated financial statements include the accounts of Interpharm Holdings, Inc. and its wholly-owned subsidiaries. The results of ATEC are included in the consolidated financial statements commencing May 30, 2003.

NOTE 1 - Summary of Significant Accounting Policies, continued

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.

Revenue Recognition

The Company recognizes revenue upon the shipment of product. The Company records a provision for allowances, returns and other sales credits based upon a review of specific accounts and historical experience. Such provision for allowances, returns and credits has been recorded as a reduction of sales in the consolidated statements of operations.

The Company purchases raw materials from two suppliers, which are manufactured into finished goods and sold back to such suppliers as well as to other customers. The Company can, and does, purchase raw materials from other suppliers. Pursuant to Emerging Issues Task Force, ("EITF") No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent," the Company recorded sales to, and purchases from, these suppliers on a

gross basis. Sales and purchases were recorded on a gross basis since the Company (i) has a risk of loss associated with the raw materials purchased, (ii) converts the raw material into a finished product based upon Company developed specifications, (iii) has other sources of supply of the raw material, and (iv) has credit risk related to the sale of such product to the suppliers. For the years ended June 30, 2005 and 2004, the six month periods ended June 30, 2003 and 2002 and for the year ended December 31, 2002, the Company purchased raw materials from the two suppliers totaling approximately $9,251,000, $12,367,000, $3,573,000, $3,693,000, and $6,805,000, respectively and sold finished goods to such suppliers totaling approximately $17,414,000, $22,625,000, $5,795,000, $5,290,000, and $10,745,000, respectively.

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. In accordance with EITF Issue No. 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share," 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. The adoption of EITF Issue No. 03-6 did not require any changes to the Company's calculation of EPS.

NOTE 1 - Summary of Significant Accounting Policies, continued

The computation of diluted EPS does not assume conversion, exercise or contingent issuance of securities that would have an antidilutive effect on EPS (i.e. improving earnings per share). The dilutive effect of outstanding options and warrants and their equivalents are reflected in dilutive EPS by the application of the treasury stock method. In periods when there is net income available to common stockholders, options and warrants will have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the options or warrants.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term investments with original maturities of three months or less

to be cash equivalents. From time to time, the company maintains cash balances in excess of the FDIC insurance limit.

Marketable Securities

Marketable securities, which are classified as "available for sale," are valued at fair market value. Unrealized gains or losses are recorded net of income taxes as accumulated other comprehensive income or loss in stockholders' equity, whereas realized gains and losses are recognized in the Company's consolidated statements of operations using the first-in, first-out method. Other than temporary declines in the value of marketable securities are also recognized as a loss in the consolidated statements of operations.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the account receivable balance. Management determines the allowance based on known troubled accounts, historical experience and other currently available evidence.

Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) or market value. Losses from the write-down of damaged, nonusable, or otherwise nonsalable inventories are recorded in the period in which they occur.

Land, Building and Equipment

Land, building and equipment is stated at cost. Maintenance and repairs are charged to expense as incurred, costs of major additions and betterments are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation is eliminated from the accounts and any resulting gain or loss is reflected in operations.

Depreciation and Amortization

Depreciation is provided for on the straight-line method over the estimated useful lives of the related assets. The cost of leasehold improvements is amortized over the lesser of the length of the related leases or the estimated useful lives of the improvements.

NOTE 1 - Summary of Significant Accounting Policies, continued

Capitalization of Interest and Other Costs

The Company capitalizes interest on borrowings and certain other direct costs during the active construction period of major capital projects. Capitalized costs are added to the cost of the underlying assets and will be depreciated over the useful lives of the assets. The Company capitalized approximately $343,000 including interest approximating

$252,000, during the fiscal year ended June 30, 2005 in connection with its capital improvements to the Brookhaven, NY facility.

Comprehensive (Loss) Income

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," the Company reports comprehensive (loss) income in addition to net (loss) income. Comprehensive (loss) income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net (loss) income.

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 depreciation, deferred tax asset valuations and inventory overhead costing estimates.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine if impairment exists, the Company compares the estimated future undiscounted cash flows from the related long-lived assets to the net carrying amount of such assets. Once it has been determined that impairment exists, the carrying value of the asset is adjusted to fair value. Factors considered in the determination of fair value include current operating results, trends and the present value of estimated expected future cash flows.

Income Taxes

The Company accounts for income taxes using the liability method which requires the determination of deferred tax assets and liabilities based on the differences between the financial and tax bases of assets and liabilities using enacted tax rates in effect for the year in which differences are expected to reverse. The net deferred tax asset is adjusted by a valuation allowance, if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. The Company and its subsidiaries file a consolidated income tax return.

NOTE 1 - Summary of Significant Accounting Policies, continued

Significant Accounting Policies, continued

Shipping Costs

The Company's shipping and handling costs are included in selling, general and administrative expenses. For the years ended June 30, 2005 and 2004, the six months ended June 30, 2003 and 2002 and for the year ended December 31, 2002, shipping and handling costs approximated $434,000, $419,000, $198,000, $181,000, and $370,000, respectively.

Research and Development

Pursuant to SFAS No. 2 "Accounting for Research and Development Costs," our research and development costs are expensed as incurred or at the date payment of non-refundable amounts become due, whichever occurs first. Research and development costs, which consist of salaries and related costs of research and development personnel, fees paid to consultants and outside service providers, raw materials used specifically in the development of its new products and bioequivalence studies.

Concentrations and Fair Value of Financial Instruments

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. At June 30, 2005, the Company has cash investments totaling approximately $65,000 at two financial institutions. Concentrations of credit risk with respect to accounts receivable are disclosed in Note 13. The Company performs ongoing credit evaluations of its customers' financial conditions and, generally, requires no collateral from its customers. Unless otherwise disclosed, the fair values of financial instruments approximate their recorded value.

Reclassification

Certain accounts in the prior period's financial statements have been reclassified for comparative purposes to conform with the presentation in the current period's financial statements. These reclassifications have no effect on previously reported operations.

Stock Based Compensation

At June 30, 2005, the Company had two stock-based employee compensation plans. As permitted under 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:

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies, continued

Stock Based Compensation, continued

	Year Ended June 30,		Six Months Ended June 30,	
	2005	2004	2003	
Net (loss) income as reported	$ (149,432)	$ 3,122,821	$ 723,645	$
Less: Stock-based employee compensation expense determined under fair value-based method for all awards, net of income tax	7,600,000	803,544	60,000	
Pro forma	$ (7,749,432)	$ 2,319,277	$ 663,645	$
Basic net (loss) earnings per share				
As reported	$ (0.01)	$ 0.16	$ 0.08	$
Pro forma	$ (0.30)	$ 0.15	$ 0.07	$
Diluted net (loss) earnings per share				
As reported	$ (0.01)	$ 0.04	$ 0.02	$
Pro forma	$ (0.30)	$ 0.04	$ 0.02	$

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 beginning the first quarter of fiscal 2006. 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 year end includes the pro-forma effects of accelerating options valued at $4.2 million, as discussed below.

During 2005 in an effort to reduce the expected impact to be incurred in future periods as a result of adopting SFAS No.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 and other options have been granted subsequent to December 31, 2004 with future vesting provisions, the Company expects to record stock options expense commencing the first quarter of fiscal 2006.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies, continued

Stock Based Compensation, continued
The fair values of Company common stock options granted to employees were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (1) expected volatility ranging from 106% to 131% (2) risk-free interest rate ranging from 4.25% to 5.58% and (3) expected average lives of 10 years.

New Accounting Pronouncements
In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No.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 No. 151 are effective for the Company's fiscal year 2006. The Company is currently evaluating the provisions of SFAS No. 151 and does not expect that adoption will have a material impact on its consolidated financial position, results of operations, or cash flows.

In December 2004, the FASB finalized SFAS No. 123R amending SFAS No. 123, effective beginning the first quarter of fiscal 2006. SFAS No. 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 No. 123R will have no effect on the Company's cash flows, but is expected to have a material 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. The Company leases its premises from Sutaria Realty Family Trust ("Trust"). The Trust is owned directly or indirectly by two officers of the Company (see Note 8). The Company has reviewed the provisions of this Staff Position and determined that the Trust is not a VIE that needs to be consolidated.

In October 2004, the FASB ratified, the consensus reached by the EITF with respect to Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share." The EITF's consensus states that shares of common stock contingently issuable pursuant to contingent convertible securities should be included in diluted earnings per share computations (if dilutive) regardless of whether their market price triggers (or other contingent features) have been met. EITF 04-8 was effective for reporting periods ending after December 15, 2004. As further discussed in Note 10 the Company's only contingently convertible securities are the shares of Series A-1 preferred stock. Since the

contingency is not based on market price

NOTE 1 - Summary of Significant Accounting Policies, continued

New Accounting Pronouncements, continued
triggers, EITF No. 04-8 is not applicable to the Company.

In December 2004, the FASB issued SFAS No. 153 , "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No.153 is effective for periods beginning after June 15, 2005. The Company does not expect that adoption of SFAS No.153 will have a material effect on its consolidated financial position, consolidated results of operations, or liquidity.

NOTE 2 - Marketable Securities

Management has classified its equity securities as available-for-sale securities, which are reported at fair market value. The Company, as a result of liquidating its holdings of marketable securities during the year ended June 30, 2005, recognized an $8,943 gain. The costs and fair market value of marketable securities are as follows:

	June 30,	
	2005	2004
Cost	$ --	$ 36,883
Unrealized loss	--	(92)
Fair market value	$ --	$ 36,791

NOTE 3 - Accounts Receivable

Accounts receivable is shown net of an allowance for doubtful accounts of $65,684 and $74,166 at June 30, 2005 and 2004, respectively. The changes in the allowance for doubtful accounts are summarized as follows:

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - Accounts Receivable, continued

	Year Ended June 30,		Six Months Ended June 30,	Year End December
	2005	2004	2003	2002
Beginning balance	$ 74,166	$ 47,776	$ 47,776	$ 47,
Provision for doubtful accounts	--	40,000	40,200	47,
Charge-offs	(8,481)	(13,610)	(40,200)	(47,
Ending balance	$ 65,685	$ 74,166	$ 47,776	$ 47,

NOTE 4 - Inventories

Inventories consist of the following:

	June 30,	
	2005	2004
Finished goods	$ 720,990	$ 534,175
Work in process	5,538,905	2,710,270
Raw materials	2,116,579	1,932,971
Packaging materials	564,260	352,745
Total	$ 8,940,734	$ 5,530,161

During the quarter ended December 31, 2002, the Company incurred a $202,000 loss from the write-down of damaged and unusable raw materials inventory.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - Land, Building and Equipment

Land, building and equipment consists of the following:

	June 30,		Estimated Useful Lives
	2005	2004	
Land	$ 4,924,000	$ 4,924,000	
Building, equipment and construction in progress (a)	9,313,580	4,475,482	7-20 Years
Machinery and equipment	8,289,248	5,457,395	5-7 Years
Furniture and fixtures	435,078	319,762	5 Years
Leasehold improvements	2,950,425	2,623,203	5-15 Years
	25,912,331	17,799,842	
Less: accumulated depreciation and amortization	4,040,533	2,792,710	
Land, Building and Equipment, net	$21,871,798	$15,007,132	

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

On June 29, 2004, the Company completed a transaction in which it acquired a second facility located in Brookhaven, New York. The 92,000 square foot facility, situated on 37 acres, was purchased for $9,399,482 which included closing costs of $149,482. $4,924,000 has been allocated to land with the balance, $4,475,482, attributable to the building. The Company secured a $7,400,000 mortgage loan for part of the purchase price.

Depreciation and amortization expense for the years ended June 30, 2005 and 2004, the six month period ended June 30, 2003 and for the year ended December 31, 2002 was $1,247,823, $886,141, $317,034 and $494,986, respectively.

NOTE 6 - Accounts Payable, Accrued Expenses and Other Liabilities

Accounts payable, accrued expenses and other liabilities consist of the following:

	June 30,	
	2005	2004
Trade accounts payable	$ 4,624,982	$ 3,455,444
Accrued expenses and other liabilities	1,607,604	1,089,901
Total	$ 6,232,586	$ 4,545,345

NOTE 7 - Bank Debt

A summary of the outstanding long-term debt is as follows:

	June 30,	
	2005	2004
Advised credit facility - new (a)	$ 9,970,000	$ --
Advised credit facility - old (b)	--	424,847
Mortgage note payable (a)	7,060,833	7,400,000
Total Bank Debt	17,030,833	7,824,847
Less: Current Maturities	10,340,000	764,014
Long-Term Debt, Less Current Maturities	$ 6,690,833	$7,060,833

a. On March 29, 2004, the Company obtained a new $21 million credit facility from the s provided the old credit facility. The new credit facility consists of (i) a $7.4 million m the purchase of the Company's second manufacturing plant in Brookhaven, NY (Note 5); million of credit lines primarily to acquire new equipment and for renovations, and (iii) a general line of credit. Details of the new facility are as follows:

- The $7,400,000 mortgage loan is to be repaid with 119 monthly principal installments of $30,833 commencing on August 1, 2004 with the balance due June 1, 2014.

- Two advised secured credit lines aggregating $6,600,000 primarily for acquisitions of equipment and for renovations of the Company's new Brookhaven, NY plant. The balance of the funds accessed through these credit lines will convert into fully amortizing 60 month term loans.

- A $2,000,000 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 fully amortizing 60 month term loans.

- The $5,000,000 advised secured line of credit is primarily for working capital and purposes.

This new credit facility is collateralized by substantially all assets of the Company. At the Option of the Company, interest will generally be calculated at (i) LIBOR plus 1.5% for 3 to 36 month periods, or at (ii) the Bank's then fixed prime rate. As of June 30, 2005, the interest rates on the working capital lines range from 4.46% to 5.14% and interest on the mortgage loan was 4.46%. On July 1, 2005, the mortgage loan interest rate increased to 5.19% and will be recalculated at December 1, 2005. The Bank will review the new credit facility annually; the next review is scheduled to occur no later than November 30, 2005. The credit lines are terminable by the Bank at any time as to undrawn amounts. In addition, the Company is required to comply with certain financial covenants, and as of June 30, 2005, the Company was in default of two financial covenants. In September 2005, the Company has obtained a waiver from the Bank.

NOTE 7 - Bank Debt, continued

In addition to the outstanding borrowings at June 30, 2005, the Company had approximately $440,000 outstanding under advised letters of credit. As a result, at June 30, 2005, the Company had approximately $3,190,000 available for future borrowings. During fiscal 2005, the Company and the Bank informally agreed to consolidate the four credit lines into one advised credit line totaling $13,600,000. As a result, the $9,970,000 of advances have not been allocated to each individual credit line. Since the Company and the Bank have not determined the amount of loans that are available to be converted into 60 month term loans, the entire advised credit facility is classified as current.

b. 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. As of June 30, 2004, the Company had outstanding borrowings of $424,847 under the line of credit. During the year ended June 30, 2005, the Company paid down this entire balance. The credit facility was terminated in conjunction with obtaining the new credit facility discussed above.

Scheduled annual maturities of the bank debt are as follows:

For the Year Ending June 30,	Amount
2006	$10,340,000
2007	370,000
2008	370,000
2009	370,000
2010	370,000
Thereafter	5,210,833
Total	$17,030,833

NOTE 8 - Related Party Transactions

Rents
The Company leases its business premises ("Premises") from the Trust, an entity owned directly by one officer and indirectly by another officer of the Company, under a noncancelable lease expiring in October 2019. The Company is obligated to pay minimum annual rent of $480,000, plus property taxes, insurance, maintenance and other expenses related to the Premises.

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

NOTE 8 - Related Party Transactions, continued

Future annual minimum rental payments under this operating lease are as follows:

For the Year Ending June 30,	Amount
2006	$ 480,000
2007	480,000
2008	480,000
2009	480,000
2010	480,000
Thereafter	4,480,000
Total	$6,880,000

The lease does not grant the Company the option to purchase the Premises at any time during the lease term nor at its termination, nor will the Company share in any proceeds that may result from sale or disposition of the Premises. The owners of the Trust purchased the Premises by making cash payments in the amount of $1,255,000 and by issuing $3,720,000 in mortgage notes.

Investment in APR, LLC

In February and April 2005, the Company purchased 5 Class A membership interests ("Interests") from each of Cameron Reid ("Reid"), the Company's Chief Executive Officer, and John Lomans ("Lomans"), who has no affiliation with the Company, for an aggregate purchase price of $1,022,500 (including costs of $22,500) 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, 100 Class A membership interests and 100 Class B membership interests. As a result, the Company owns 10 of the 100 Class A membership Interests outstanding. 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 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.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - Income Taxes

The income tax (benefit) expense is comprised of the following:

	Year Ended June 30,		Six Months Ended June 30,	Year Ended December 31,
	2005	2004	2003	2002
Current				
Federal	$ --	$ (30,967)	$ 243,255	$ 404,663
State	5,328	18,105	35,312	19,250
Total Current	5,328	(12,862)	278,567	423,913
Deferred				
Federal	(71,000)	1,785,200	119,500	67,100
State	(7,000)	213,300	(3,400)	12,400
Total Deferred	(78,000)	1,998,500	116,100	79,500
(Benefit) Provision for Income Taxes	$ (72,672)	$ 1,985,638	$ 394,667	$ 503,413

The Company's effective income tax rate differs from the statutory U.S. Federal income tax rate as a result of the following:

	Year Ended June 30,		Six Months Ended June 30,
	2005	2004	2003
Statutory U.S. federal tax rate	(34.0)%	34.0%	34.0%
State taxes	(3.0)	3.0	2.0
Permanent differences	4.0	0.2	(0.7)
Change in valuation allowance	-	0.7	(0.4)
Other	0.3	1.0	0.4
Effective income tax rate	(32.7)%	38.9%	35.3%

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - Income Taxes, continued

The components of deferred tax assets and liabilities consist of the following:

	June 30,	
	2005	2004
Deferred Tax Assets, Current Portion		
Capitalized inventory	$ 19,000	$ 17,000
Receivable allowance and reserves	25,000	27,000
Other	43,000	45,000
Net operating loss carryforwards	--	1,191,000
Deferred Tax Assets, current	$ 87,000	$ 1,280,000
Deferred Tax Assets, Non-Current Portion		
Other	$ 47,000	$ --
Investment tax credits	600,000	518,000
Net operating loss carryforwards ("NOLS")	4,799,000	3,295,000
	5,446,000	3,813,000
Valuation allowance	(702,000)	(620,000)
Deferred Tax Assets, Non-Current	4,744,000	3,193,000
Deferred Tax Liabilities, Non-Current Portion		
Depreciation and amortization	(418,000)	(291,000)
Deferred Tax Assets, non-current, net	$ 4,326,000	$ 2,902,000

During the year ended June 30, 2005 and 2004, stock options were exercised which generated approximately $413,000 and $9,900,000 of income tax deductions, respectively, resulting in tax benefits of $153,000 and $3,679,100, respectively, which were credited to additional paid-in capital.

As part of the reverse merger transaction (see Note 1), approximately $7,370,000 of ATEC's NOLs are available to the Company. At June 30, 2005 the Company has remaining Federal NOLs of approximately $13,000,000 and State NOLs of approximately $12,440,000 expiring through 2025. Pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership, utilization of these NOLs is limited. Approximately $6,750,000 of these NOL's are available in fiscal 2006, and utilization of $6,250,000 of these NOL's is limited and becomes available after fiscal 2006. The limitations lapse at the rate of $2,690,000 per year, through fiscal 2009. As of June 30, 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 reserved approximately 30% of the State NOLs which the Company does not anticipate utilizing due to State limitations.

NOTE 9 - Income Taxes, continued

In addition, at June 30, 2005, the Company has approximately $600,000 of New York State investment tax credit carryforwards, expiring in various years through 2020. These carryforwards are available to reduce future New York State income tax liabilities. However, the Company has reserved 100% of the investment tax credit carryforward, which the Company does not anticipate utilizing.

NOTE 10 - Earning Per Share

The calculations of basic and diluted EPS are as follows:

	Year Ended June 30,		Six Months Ended June 30,	
	2005	2004	2003	2002
Numerator:				
Net (loss) income	$ (149,432)	$ 3,122,821	$ 723,645	$ 610,
Less: Preferred stock dividend	165,569	165,569	13,150	
Less: Net (loss) income attributable to Series K preferred stockholders	--	194,476	86,765	152,
Numerator for basic EPS	(315,001)	2,762,776	623,730	458,
Effect of dilutive securities:				
Net income attributable to Series K preferred stockholders	165,569	194,476	86,765	152,
Numerator for diluted EPS	$ (149,432)	$ 2,957,252	$ 710,495	$ 610,
Denominator:				
Denominator for basic EPS				
Weighted average shares outstanding	25,683,726	17,594,979	7,721,524	6,151,
Effect of dilutive securities:				
Convertible Series K preferred stock	--	43,460,533	32,609,356	29,783,
Convertible Series A, B, C and J				

preferred stocks	--	11,454	19,879	
Stock options	--	7,570,219	1,313,598	
Denominator for diluted EPS	25,683,726	68,637,185	41,664,357	35,935,
Basic EPS	$ (0.01)	$ 0.16	$ 0.08	$ 0
Diluted EPS	$ (0.01)	$ 0.04	$ 0.02	$ 0

NOTE 10 - Earning Per Share, continued

As of June 30, 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	32,338,607
Stock options outstanding (see Note 11)	12,653,870
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)	31,373,875
Total (c)	81,229,139

(a) As described in Note 11, 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, 2006 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 (see Note 11).

(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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - Equity Securities

Preferred Stocks

The Company's preferred stocks consist of the following at June 30, 2005:

	Shares Authorized	Shares Issued and Outstanding	Par Value	Liquidation Preference
June 30, 2005:				
Preferred Stocks:				
*Series A cumulative convertible	29,233	7,611	$ 761	$ 761,100
Series A-1 cumulative convertible	5,000,000	4,855,389	48,554	3,311,375
*Series B convertible	12,704	1,458	146	14,580
*Series C convertible	350,000	279,208	279,208	1,396,040
*Series J convertible	105,000	--	--	--
Series K convertible	3,000,000	1,464,567	14,646	--
Total preferred	8,496,937	6,608,233	$ 343,315	$ 5,483,095

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

At June 30, 2005, 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 $.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 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. In accordance with these terms, in November, 2004, the Board of Directors declared a dividend of $178,719. The declared dividend was cumulative through June 30, 2004, and was paid March 10, 2005. In May, 2005, the Board of Directors declared a dividend of $124,177. This declared dividend was cumulative from July 1, 2004 through March 31, 2005 and has not been paid as of June 30, 2005. Total undeclared dividends amounted to approximately $41,000 as of June 30, 2005.

NOTE 11 - Equity Securities, continued

Preferred Stocks, continued
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 7,398 shares. The conversion rights of the J, K and A-1 shares are described below.

The J shares had a mandatory conversion provision, if any time on or after the applicable issuance date the closing price of the common stock of the Company for three consecutive trading days is equal to or greater than five dollars. In the first quarter of fiscal 2004, the mandatory conversion price was attained and all of the outstanding J shares converted into 105,000 shares of common stock. The J shares cannot be re-issued.

On June 4, 2004, the Company was deemed by AMEX to be in compliance with applicable listing standards, and as a result, a "Triggering Event" occurred. Upon the occurrence of the Triggering Event, the holders of the K shares, in accordance with a defined formula, which assumes among other things, the conversion of the A, B, C and J shares into common stock, converted one seventh or 292,913 of the K shares into 6,274,775 restricted shares of the Company's common stock. The K shares automatically convert into a like amount on each June 4th through 2010, for an aggregate of an additional 31,373,875 shares of common stock. Upon a change in control, as defined, the conversion of the K shares may accelerate. The holders of the K shares have demand registration rights with respect to the common stock to be issued upon conversion. The net effect of the conversion feature, together with the shares of common stock issued in the reverse merger, was 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 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.

On May 30, 2003 the Company authorized the satisfaction of loans due to the Company's then Chief Executive Officer and one of its stockholders, by issuing 4,855,389 A-1 shares. 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.

Stock Options
In 2003, Interpharm, Inc., as a part of the ATEC reverse merger transaction, assumed options to acquire ATEC's common stock which were granted previously by ATEC pursuant to two

NOTE 11 - Equity Securities, continued

Stock Options, continued
Stock Option Plans. The two option plans are the 1997 Stock Option Plan ("1997 Plan") and the 2000 Flexible Stock Option Plan ("2000 Plan"). Both plans provide for the issuance of qualified and non-qualified options as those terms are defined by the Internal Revenue Code.

The 1997 Plan provides for the issuance of 6,000,000 shares of common stock. All options issued, pursuant to the 1997 Plan, can not have a term greater than ten years. Options granted under this plan vest over periods established in option agreements. As of June 30, 2005, 1,436,370 options are outstanding under this plan. No additional shares can be granted under this plan.

The 2000 Plan provides for the issuance of 10,000,000 shares of common stock plus an annual increase, effective on the first day of each calendar year, equal to 10% of the number of outstanding shares of common stock as of the first day of such calendar year, but in no event, more than 20,000,000 shares in the aggregate. All options issued, pursuant to the 2000 Plan, can not have a term greater than ten years. Options granted under the 2000 Plan vest over periods established in option agreements. As of June 30, 2005, the 2000 Plan provides for the issuance of 16,429,438 shares of common stock. As of that date, 11,217,500 options are outstanding under this plan.

During the fiscal year 2005, excluding 4,854,325 options which were repriced (see below), 3,261,700 options were granted. Of this amount, certain grants are detailed as follows:

- 2,000,000 fully vested options were granted to the Company's Chief Executive Officer, having an exercise price of $1.23.
- 25,000 fully vested options were granted to the Company's Chief Financial Officer, having an exercise price of $1.23.
- 761,000 performance-based options were granted as follows:
  - 125,000 options were granted to the Company's Chief Financial Officer, having an exercise price of $1.23, which was the closing price of the Company's common stock on the date of the grant. The options vest 25% on July 1, 2006 and each subsequent July 1st through July 1, 2009.
  - 636,000 options were granted to certain executives and employees, having an exercise price of $1.23, which was the closing price of the Company's common stock on the date of the grant. The options vest 25% on July 1, 2006 and each subsequent July 1st through July 1, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - Equity Securities, continued

Stock Options, continued

At June 30, 2005, the Company repriced certain options to officers, executives and employees as follows:

	Original Option Grants				Repriced Op
	Options Granted	Exercise Price Ranges	Remaining Life Ranges	Exercise Price	
Officers	3,275,000	$2.24 to $4.41	8.60 to 9.57 years	$ 1.23	
Executives	425,000	$1.94 to $2.69	4.57 to 9.57 years	$ 1.23	4.
Employees	1,154,325	$1.64 to $5.50	2.10 to 8.60 years	$ 1.23	2.
	4,854,325				

The repriced options were remeasured at market price on the date of repricing and, as such, no financial impact was recorded. Substantially all of the options were fully vested as of the repricing date.

The following table summarizes the options assumed by Interpharm, Inc. in the ATEC reverse merger and activity for the period June 30, 2003 to June 30, 2005. There were no options issued by Interpharm, Inc. prior to the reverse merger.

	Number of Options	Weighted Average Exercise Price
Options assumed from ATEC in reverse merger transaction - May 30, 2003	7,495,691	$1.51
Granted	5,075,000	$0.68
Exercised	(25,000)	$1.25
Outstanding at June 30, 2003	12,545,691	$1.17
Granted	1,443,800	$4.03
Exercised	(3,477,441)	$1.04
Forfeited	(23,250)	$0.94
Outstanding at June 30, 2004	10,488,800	$1.62

Granted(a)	8,116,025	$1.53
Exercised	(1,096,630)	$0.57
Forfeited(a)	(4,854,325)	$3.29
Outstanding at June 30, 2005	12,653,870	$1.01

(a) Includes 4,854,325 options repriced at June 30, 2005.

NOTE 11 - Equity Securities, continued

Stock Options, continued

The following table summarizes information concerning outstanding and exercisable stock options as of June 30, 2005:

	Options Outstanding			Option
Range of Exercise Prices	Number Outstanding At June 30, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisab at June 30, 2
$0.450 - $0.680	6,584,000	7.42	$0.64	3,934
$1.230 - $3.970	5,924,870	7.69	$1.30	4,918
$4.410 - $6.800	145,000	3.85	$6.18	145
	12,653,870			8,595

NOTE 12 - Commitments and Contingencies

Legal Proceedings

Because Interpharm, Inc. utilizes certain controlled substances, it is subject to routine inspection by the U.S. Drug Enforcement Agency. In June, 2004, Interpharm, Inc. received a notice from the United States Attorney's Office for the Eastern District of New York relating to a routine inspection conducted in November, 2003. No complaint has been filed by the United States Attorney's Office, and, on September 19, 2005, we settled any and all potential claims pursuant to an Agreement and Memorandum of Understanding, the terms of which required a $50,000 payment from us at signing.

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.

Significant New Contracts

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

NOTE 12 - Commitments and Contingencies, continued

Significant New Contracts, continued

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 accordance with the terms of this agreement, the Company will make payments as various milestones are achieved. In addition, Tris is to receive a royalty of between 10% and 12% of net profits resulting from the sales of each product.

According to the terms of the second agreement, as amended, for the solid dosage products, the Company will collaborate with Tris on the development, manufacture and marketing of eight solid oral dosage generic products and two softgel products, some of which may require the Company to challenge the patents for the equivalent branded products. This agreement, as amended, provides for payments of an aggregate of $4,500,000 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. So long as Tris continues to provide evidence of their effort to develop the eight solid generic pharmaceutical products and two softgel products, the Company is obligated to remit payments.

As of June 30, 2005, the Company recorded as a research and development expense and paid Tris $1,400,000 in connection with these agreements.

Software license

During the year ended June 30, 2005, the Company entered into a four year software license agreement which will require the Company to make quarterly payments of $28,535, plus applicable sales taxes through December 31, 2008. Thereafter the Company may opt to remit annual fees in order to maintain a perpetual user's license.

Future minimum annual payments for the software license are as follows:

For the Year Ending June 30,	Amount
2006	$ 124,000
2007	124,000
2008	124,000
2009	62,000
Total	$ 434,000

NOTE 13 - Economic Dependency

Major Customers
The Company had the following customer concentrations for the years ended June 30, 2005 and 2004, the six month periods ended June 30, 2003 and 2002 and for the year ended December 31, 2002:

	Sales - Percent of Revenue			
	Year Ended June 30,		Six Months Ended June 30,	
	2005	2004	2003	2002
Customer A	23%	26%	*	*
Customer B	22%	29%	37%	45%
Customer C	*	*	13%	16%

* Sales to customers were less than 10%

The Company complies with its supply agreements to sell various strength Ibuprofen to the Department of Veteran Affairs ("DVA") through intermediary wholesale prime vendors which are designated by the DVA. During the year ended June 30, 2004 the DVA added a second prime vendor, and as a result, reduced our sales to the initial prime vendor to an amount below 10% of its revenue. Sales to both wholesale prime vendors during the years ended June 30, 2005 and 2004 aggregated approximately 11.1% and 9.7%, respectively.

Accounts Receivable
June 30,

	2005	2004
Customer A	$1,788,572	$849,055
Customer B	1,863,436	2,760,500
Customer C	618,636	172,851

Major Suppliers

The Company purchased materials from three suppliers, during the years ended June 30, 2005 and 2004, totaling approximately 70% and 82%, respectively, and two suppliers totaling approximately 60%, 72% and 68% of the Company's total purchases, during the six month periods ended June 30, 2003 and 2002 and for the year ended December 31, 2002, respectively. At June 30, 2005 and 2004 amounts due to these suppliers included in accounts payable, were approximately $2,311,000 and $2,590,000, respectively.

NOTE 14 - Quarterly Financial Data (Unaudited)

Summarized quarterly financial information consists of the following:

	Sept. 30, 2004	Dec. 31, 2004	March 31, 2005
Sales, net	$9,053,132	$8,838,067	$10,669,660
Gross profit	1,940,104	2,593,502	2,271,780
Net income (loss)	413,272	625,532	(633,574)
Basic EPS	$0.01	$0.02	$(0.03)
Diluted EPS	$0.01	$0.01	$(0.03)

	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004
Sales, net	$6,875,348	$11,706,231	$11,307,974
Gross profit	1,431,830	2,618,275	2,815,151
Net income	227,439	1,024,097	983,530
Basic EPS	$0.01	$0.05	$0.05
Diluted EPS	$0.00	$0.01	$0.01

The unaudited interim financial information reflects all adjustments, which in the opinion of management, are necessary to fairly present the results of the interim periods presented. All adjustments are of a normal recurring nature. The sum of the quarterly EPS amounts may not equal the full year amounts due to rounding.