

Edgar Filing: INTERPHARM HOLDINGS INC - Form 10-Q

INTERPHARM HOLDINGS INC  
Form 10-Q  
November 14, 2003

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 10-Q  
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QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended September 30, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period from to  
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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 (I.R.S. Employer  
corporation or organization) Identification Number)

69 Mall Drive, Commack, New York 11725  
-----

(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code (631) 543-2800  
-----

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

YES  NO

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

YES  NO

As of the close of business on November 3, 2003, there were 17,393,886 shares of the Registrant's Common Stock outstanding.

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## INTERPHARM HOLDINGS, INC.

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### INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS

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#### ASSETS

September 30, 2003	June 30, 2003
(Unaudited)	(Audited)

#### CURRENT ASSETS

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Cash and cash equivalents	\$ 2,431,577	\$ 2,336,203
Marketable securities, at fair market value	49,642	48,462
Accounts receivable, net	4,084,579	4,930,109
Notes receivable, current	--	1,000,000
Inventories	6,869,436	4,583,205
Prepaid expenses and other current assets	603,830	224,149
Deferred tax assets	23,500	23,500
	-----	-----
 Total Current Assets	 14,062,564	 13,145,628
 Property and equipment, net	 5,013,811	 4,085,302
Notes receivable, long-term	--	524,092
Deferred tax assets	2,537,900	2,537,900
Deposits	262,260	45,873
	-----	-----
 TOTAL ASSETS	 \$21,876,535	 \$20,338,795
	=====	=====

See Notes To Condensed Consolidated Financial Statements

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
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LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2003	June 30, 2003
	----- (Unaudited)	----- (Audited)
CURRENT LIABILITIES		
Lines of credit, bank	\$ 424,847	\$ 2,064,793
Current maturities of bank notes payable	--	224,241
Accounts payable, accrued expenses, and other liabilities	5,852,615	5,314,341
	-----	-----
 Total Current Liabilities	 6,277,462	 7,603,375
	-----	-----

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OTHER LIABILITIES		
Bank notes payable, less current maturities	--	237,521
Other liabilities	29,535	29,535
	-----	-----
Total Other Liabilities	29,535	267,056
	-----	-----
TOTAL LIABILITIES	6,306,997	7,870,431
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stocks, 10,000,000 shares authorized; issued and outstanding - 7,195,876 and 7,300,876, respectively; aggregate liquidation preference of \$5,494,080	350,971	352,021
Common stock, \$.001 par value, 70,000,000 shares authorized; shares issued - 18,018,031 and 15,671,649, respectively	180,181	156,717
Additional paid-in capital	14,926,378	12,076,237
Accumulated other comprehensive income	12,759	11,579
Retained earnings	897,117	669,678
Treasury stock at cost, 624,145 shares at September 30, and June 30, 2003	(797,868)	(797,868)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	15,569,538	12,468,364
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 21,876,535	\$ 20,338,795
	=====	=====

See Notes To Condensed Consolidated Financial Statements

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 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (UNAUDITED)  
 -----

	Three Months Ended September 30,	
	2003	2002
	-----	-----
SALES, Net	\$ 6,875,348	\$ 5,932,585

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COST OF SALES (including related party rent expense of \$102,000 for the three months ended September 30, 2003 and 2002, respectively)	5,443,518	4,853,785
	-----	-----
GROSS PROFIT	1,431,830	1,078,800
	-----	-----
OPERATING EXPENSES		
Selling, general and administrative expenses	1,033,775	572,199
Related party rent expense	18,000	18,000
Research and development	35,000	130,555
	-----	-----
TOTAL OPERATING EXPENSES	1,086,775	720,754
	-----	-----
OPERATING INCOME	345,055	358,046
	-----	-----
OTHER INCOME (EXPENSES)		
Related party interest expense	--	(46,987)
Interest expense	(6,147)	(27,553)
Interest income	2,759	10
	-----	-----
TOTAL OTHER EXPENSES	(3,388)	(74,530)
	-----	-----
INCOME BEFORE INCOME TAXES	341,667	283,516
PROVISION FOR INCOME TAXES	114,228	87,409
	-----	-----
NET INCOME	\$ 227,439	\$ 196,107
	=====	=====
EARNINGS PER SHARE		
Basic earnings per share	\$ .01	\$ .02
	=====	=====
Diluted earnings per share	\$ .00	\$ .01
	=====	=====
Basic weighted average shares outstanding	16,328,011	6,151,178
	=====	=====
Diluted weighted average shares and equivalent shares outstanding	68,612,676	35,935,062
	=====	=====

See Notes To Condensed Consolidated Financial Statements

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(UNAUDITED)

For the Three Months Ended September 30, 2003

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Addit Paid Capi
BALANCE - July 1, 2003	7,300,876	\$ 352,021	15,671,649	\$ 156,717	\$12,07
Shares issued for options and warrants exercised	--	--	2,241,382	22,414	2,67
Conversion of series J convertible preferred stock to common stock	(105,000)	(1,050)	105,000	1,050	
Valuation adjustments related to Reverse merger	--	--	--	--	5
Tax expense in connection with exercise of Employee stock options					12
Unrealized gain on marketable securities, net	--	--	--	--	
Net income	--	--	--	--	
BALANCE - September 30, 2003	7,195,876	\$ 350,971	18,018,031	\$ 180,181	\$14,92

	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
BALANCE - July 1, 2003	\$ 669,677	624,145	(797,868)	\$12,468,364
Shares issued for options				

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and warrants exercised	--	--	--	2,698,764
Conversion of series J convertible preferred stock to common stock	--	--	--	--
Valuation adjustments related to Reverse merger	--	--	--	53,791
Tax expense in connection with exercise of Employee stock options				120,000
Unrealized gain on marketable securities, net	--	--	--	1,180
Net income	227,439	--	--	227,439
BALANCE - September 30, 2003	\$ 897,117	624,145	\$ (797,868)	\$15,569,538

See Notes To Condensed Consolidated Financial Statements

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
NET INCOME	\$ 227,439	\$ 196,107
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on marketable securities, net	1,180	(2,906)

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TOTAL COMPREHENSIVE INCOME	\$ 228,619	\$ 193,201
	=====	=====

See Notes To Condensed Consolidated Financial Statements

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 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 -----

	Three Months Ended	
	September 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 227,439	\$ 196,107
Adjustment to reconcile net income to net cash used in operating activities		
Depreciation and amortization	193,237	130,991
Deferred tax expense	--	7,000
Accrued interest on related party loans	--	46,987
Tax expense in connection with exercise of employee Stock options credited to additional paid-in-capital	120,000	--
Changes in operating assets and liabilities		
Accounts receivable	845,530	440,903
Inventories	(2,286,231)	(488,315)
Prepaid expenses and other current assets	(329,681)	15,187
Deposits	(216,387)	--
Accounts payable, accrued expenses and other Current liabilities	538,274	(479,327)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(907,819)	(130,467)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from notes receivable	1,524,092	--
Purchases of property and equipment	(1,121,746)	(97,938)
NET CASH USED IN INVESTING ACTIVITIES	402,346	(97,938)



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CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of line of credit, bank	(1,639,946)	--
Repayments of bank notes payable	(461,762)	(61,623)
Due to related parties	--	(12,000)
Cash received in reverse merger transaction	3,791	--
Proceeds from option exercise	2,698,764	--
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	600,847	\$ (73,623)
	=====	=====

See Notes To Condensed Consolidated Financial Statements

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
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	Three Months Ended September 30,	
	2003	2002
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 95,374	\$ (302,028)
CASH AND CASH EQUIVALENTS - Beginning	2,336,203	443,612
	-----	-----
CASH AND CASH EQUIVALENTS - Ending	\$2,431,577	\$ 141,584
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the periods for:		
Interest	\$ 15,449	\$ 25,753
	=====	=====
Income taxes	\$ 84,456	\$ 90,000
	=====	=====
Non-cash investing and financing activities:		
Conversion of Series J preferred stock to common stock	\$ 1,050	\$ --
	=====	=====
Valuation Adjustment related to reverse merger	\$ 50,000	\$ --
	=====	=====

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See Notes To Condensed Consolidated Financial Statements

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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## NOTE 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such interim statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The operating results for the quarter ended September 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2004. See Note 2, Change of Fiscal Year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Transition Report on Form 10-K for the six month transition period ended June 30, 2003.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### NATURE OF BUSINESS

Interpharm Holdings, Inc. 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.

### REVERSE MERGER

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

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

CHANGE OF FISCAL YEAR

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

EARNINGS PER SHARE

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

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

USE OF ESTIMATES IN THE FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.



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 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
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## NOTE 3 - INVENTORIES

Inventories consist of the following:

	September 30, 2003	June 30, 2003
	-----	-----
Finished goods	\$ 145,171	\$ 347,189
Work in process	4,118,065	2,227,139
Raw materials	2,334,004	1,733,109
Packaging materials	272,196	275,769
	-----	-----
Total	\$6,869,436 =====	\$4,583,205 =====

## NOTE 4 - NOTES RECEIVABLE

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

## NOTE 5 - BANK DEBT

At September 30, 2003, the Company has a credit facility agreement with a bank, as amended on August 6, 2003, consisting of an advised secured line of credit totaling \$5,000,000 and a \$2,000,000 non-revolving secured facility for equipment purchases ("Equipment Purchase Line"). Any borrowings under the credit facility are collateralized by substantially all assets of the Company and personally guaranteed by four of the Company's stockholders. In addition, the Company must comply with certain financial covenants.

The line of credit is scheduled to be reviewed by November 30, 2003. As of September 30, 2003, the Company had outstanding borrowings of \$424,847 under the line of credit.

At June 30, 2003, there were four separate notes outstanding under the Equipment Purchase Line. Such notes were to mature at various dates through August 2006. During the three months ended September 30, 2003, all of the notes were paid in full.

## NOTE 6 - INCOME TAXES

As part of the reverse merger transaction (Note 2), approximately

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\$7,680,000 of ATEC's Federal net operating loss carryforwards ("NOLs") became utilizable by the Company. During the three month period ended September 30, 2003, stock options were exercised which generated approximately \$9,000,000 of additional NOLs (Note 8). Of this amount, \$300,000 was utilized as a deduction for tax purposes during the three months ended September 30, 2003, resulting in a cash benefit of \$120,000. The financial statement tax benefit of the deduction for the exercise of these employee stock options are credited to additional paid-in capital in the period that such tax benefit is recognized for financial statement purposes. At September 30, 2003 the Company has remaining NOLs of approximately \$16,300,000 to reduce future taxable income. These losses expire through 2024 and may be subject to substantial limitations pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership.

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 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
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NOTE 7 - EARNING PER SHARE

The calculations of basic and diluted EPS are as follows:

	Three Months Ended September	
	2003	2002
<b>Numerator:</b>		
Net income	\$227,439	\$196,100
Less: Preferred stock dividend	41,392	-
Less: Net income attributable to Series K preferred stockholders	19,619	49,020
	-----	-----
Numerator for basic EPS	166,428	147,080
<b>Effect of dilutive securities:</b>		
Net income attributable to Series K preferred stockholders	19,619	49,020
	-----	-----
Numerator for diluted EPS	\$186,047	\$196,100
	=====	=====
<b>Denominator:</b>		
Denominator for basic EPS Weighted average shares outstanding	16,328,011	6,151,170
<b>Effect of dilutive securities:</b>		
Convertible Series K preferred stock	42,684,688	29,783,880
Convertible Series A, B, C and J preferred stocks	23,452	-
Stock options	9,576,525	-

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	-----	-----
Denominator for diluted EPS	68,612,676	35,935,062
	=====	=====
Basic EPS	\$.01	\$.02
	=====	=====
Diluted EPS	\$.00	\$.01
	=====	=====

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
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NOTE 7 - EARNING PER SHARE, continued

As of November 11, 2003, the total number of common shares outstanding and the number of common shares potentially issuable upon exercise of all outstanding stock options and conversion of preferred stocks (including contingent conversions) is as follows:

Common stock outstanding - September 30, 2003	17,393,886
Common stock issued October 1 to November 11, 2003	--
Stock options outstanding - November 11, 2003	10,334,578
Common stock issuable upon conversion of preferred stocks:	
Series A	1,526
Series A-1 (maximum contingent conversion)	4,855,389
Series B	292
Series C	5,620
Series K (maximum contingent conversion)	43,887,718
	-----
	76,479,009

NOTE 8 - EQUITY SECURITIES

PREFERRED STOCKS

The Company's preferred stocks consist of the following at September 30, 2003:

	Shares Authorized	Shares Issued and Outstanding	Par Value	Liquidation Preference
	-----			-----
Preferred Stocks:				
*Series A-1 cumulative				

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### Convertible

(Forward)	29,233	7,631	\$ 763	\$ 763,100
Series A- cumulative convertible	5,000,000	4,855,389	48,554	3,311,375
*Series B convertible	12,704	1,458	145	14,580
*Series C convertible	350,000	281,005	281,005	1,405,025
*Series J convertible	105,000	--	--	--
Series K convertible	3,000,000	2,050,393	20,504	--
	-----	-----	-----	-----
 Total preferred	 8,496,937	 7,195,876	 \$ 350,971	 \$ 5,494,080
	=====	=====	=====	=====

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

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 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
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NOTE 8 - EQUITY SECURITIES, continued

At September 30, 2003, 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. At September 30, 2003, dividends accumulated, but not declared, were approximately \$55,000.

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



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below.

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

The K shares are convertible into shares of common stock, no sooner than May 30, 2004, upon the happening of any of the following events (the "Triggering Events"): (i) the Company is deemed by AMEX to be in compliance with applicable listing standards; (ii) deemed by another exchange to be in compliance with its applicable listing standards in the event the Company's securities are listed on such exchange; or (iii) the Company is no longer listed on AMEX, the Nasdaq National Market or SmallCap Market, or the New York Stock Exchange. Upon the occurrence of any of the above Triggering

Events, the K shares become convertible into an aggregate total number of shares of common stock in accordance with a defined formula, which assumes the conversion of the A, B, C and J shares into common stock. The net effect of the conversion feature, which has been deemed to be a contingent event, together with the shares of common stock issued in the reverse merger, would be to issue to Interpharm, Inc. stockholders, common stock totaling approximately 80% of the total number of shares of common stock and voting convertible preferred stock, outstanding as of the date of the Triggering Event, after giving effect to the conversion, less shares of common stock which may be issued between the date of the closing of the reverse merger and the date of the Triggering Event arising out of obligations which arose after the date of closing.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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NOTE 8 - EQUITY SECURITIES, continued

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

COMMON STOCK

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

NOTE 9 - ECONOMIC DEPENDENCY

MAJOR CUSTOMERS

The Company had the following customer concentrations for the three

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month period ended September 30, 2003 and 2002:

### Sales - Percent of Revenue

	Three Months Ended September 30,	
	2003	2002
URL/Mutual	29%	--%
Dr. Reddy's Labs/Cheminor	28%	46%
Department of Veterans Affairs	12%	11%

### Accounts Receivable

	September 30,	
	2003	2002
URL/Mutual	\$1,405,956	\$ --
Dr. Reddy's Labs/Cheminor	1,754,822	2,255,334
Department of Veterans Affairs	391,818	152,812

#### MAJOR SUPPLIERS

The Company purchased materials from three suppliers totaling approximately 86% and two suppliers totaling approximately 65% of the Company's total purchases, during the three month period ended September 30, 2003 and 2002, respectively. At September 30, 2003 and 2002, amounts due to these suppliers included in accounts payable, were approximately \$3,380,000 and \$1,692,000, respectively.

#### NOTE 10 - SUBSEQUENT EVENTS

On November 14, 2003, the Company entered into a contract to acquire an additional production facility of approximately 92,000 square feet and 37 acres of land at 50 Horseblock Road, Yaphank, New York. The purchase price for the building and land is \$9,250,000, of which \$925,000 has been paid as a deposit. The contract calls for a closing on or before March 31, 2004.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

#### OVERVIEW

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

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Interpharm, Inc., is engaged in the business of developing, manufacturing and marketing generic over-the-counter and prescription strength pharmaceutical products. We make sales both under our own label and to wholesalers and distributors which sell our products under their labels.

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

As was the case during the six-month period ended June 30, 2003 and the year ended December 31, 2002, we have been faced with increased demand for our existing products from our existing customers. These customers have expressed satisfaction with the quality of our products, our prices, and our reliability. During the quarter, we began producing Allopurinol and Atenolol which resulted in \$763,174 and \$1,138,147 in sales respectively during the quarter, and increased sales of Naproxen to \$456,454 for the quarter from \$287,192 in the same period last year. During the quarter, the launch of Allopurinol and Atenolol and increased demand resulted in a bottleneck of inventory awaiting packaging of approximately \$1 million.

In order to address the bottleneck while continuing to produce new products, we have accelerated our ongoing efforts to upgrade production capacity using cash we acquired in the reverse merger transaction (see note 2 to the consolidated financial statements) and cash received from option exercises.

First, on November 14, 2003, we entered into a contract with Arrow Electronics, Inc. to acquire an additional production facility of approximately 92,000 square feet and 37 acres of land, at 50 Horseblock Road, Yaphank, New York. This facility includes an additional 30,000 square feet of mezzanine space which can be utilized for certain production activities. The purchase price for the building and land is \$9,250,000, of which \$925,000 has been paid as a deposit. The contract calls for a closing on or before March 31, 2004.

Upon closing, we will have two facilities with a combined size of approximately 200,000 square feet. In order to be used for manufacturing, the new facility will need to be approved by the FDA. Pending such approval, the new facility can be used for warehousing and other activities, thereby creating additional capacity in our current manufacturing plant.

Second, we have spent approximately \$2.1 million on capital improvements since January 1, 2003, including two new packaging lines. One of the packaging lines went into operation in October, 2003, and the other went into operation in November, 2003. Prior to October, we had two packaging lines. We have budgeted expenditures of approximately \$1 million over the next six to eight months on additional equipment, including the addition of a fifth packaging line to supplement the four existing lines.

Third, Interpharm has assembled a new internal research and development team. In addition, Interpharm has budgeted expenditures of between \$2 million to \$3 million on research and development over the next twelve to fifteen months. We believe we can increase our pipeline of drugs under various stages of development by at least ten to twelve in the same period.

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We began our expansion plan in 2002. During the year ended December 31, 2002 and six-months ended June 30, 2003, we spent approximately \$1.2 million and \$1 million respectively on new production equipment. During the fiscal year ended December 31, 2002, we also leased an additional 38,000 square feet of space in the building we currently occupy.

In order to enhance our growth, we are also actively seeking to create strategic alliances with companies whose strengths would compliment ours. To that end, we have, in July and August 2003, launched Allopurinol and Atenolol which generated approximately \$2.0 million in sales during the quarter. We manufacture these products for United Research Laboratories, Inc. and Mutual Pharmaceutical Company, Inc. ("URL/Mutual") on a contract basis. We believe that our future growth is dependent upon other mutually beneficial arrangements with companies such as URL/Mutual, as well as obtaining new clients and aggressively increasing our product line.

### RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2003, COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002.

#### REVENUES

##### Financial Highlights

- o Net sales increased 15.9% or \$0.940 million, to \$6.9 million from \$5.9 million.
- o Gross profit increased 32.72% or \$0.35 million, to \$1.4 million from \$1.1 million.
- o Operating income decreased 3.6% or \$12,991, to \$345,055 from \$358,046.
- o Net income increased 16% or \$31,322, to \$227,439 from \$196,107.

#### NET SALES AND GROSS PROFIT

Net sales for the three months ended September 30, 2003 were \$6.9 million compared to \$5.9 million for the three months ended September 30, 2002, an increase of \$.94 million. This 15.9% increase in net sales was due to approximately \$2.0 million in sales of Allopurinol and Atenolol, which are manufactured under agreement for URL/Mutual. We did not produce either product in the same period last year. In addition, we have also increased our sales of Naproxen which were \$456,454 for the quarter as compared to \$287,192 in the same period last year. The increase in net sales was not attributable to any change in prices which, for all products in Interpharm, Inc.'s product line, remained stable.

We had planned for an additional packaging line to be operational in mid-September. The line however, was put into service in early October. As a result of this delay our inventory awaiting packaging increased approximately \$1.0 million. This had the impact of increasing our October sales for goods that were expected to ship in September. Most of the inventory awaiting packaging was Ibuprofen due to management's decision to prioritize the shipping of other products. Despite this, however, we continue to experience increasing demand for Ibuprofen.

During the three-month period ended September 30, 2003 and the six-month period ended June 30, 2003, we did not experience returns of material quantities of any of the products we sell. Therefore, we do not believe that we are subject to a material risk attributable to returns.

Gross profit for the three months ended September 30, 2003 was \$1.4

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million, an increase of 32.7% or \$.35 million from the \$1.1 million for the prior year.

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### COST OF SALES

Cost of sales increased 12.1% or \$0.6 million to \$5.4 million in the three months ended September 30, 2003, from \$4.8 million in the three months ended September 30, 2002 due to increased production and sales. Raw material prices were constant during the period. 71.3% of the increase was labor costs, including payroll taxes and benefits. We have increased our labor force significantly over the past year to accommodate both our current growth and our projected future growth. The FDA regulates most aspects of our manufacturing processes. Therefore, we provide extensive training to all of our employees, which results in a three month lag between the hiring of a new employee and when they can be fully incorporated into our production process.

As set forth above, we increased production to satisfy existing demand from existing customers which have additional purchasing capacity. In addition, we introduced Atenolol and Allopurinol.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$1.0 million, in the three months ended September 30, 2003, or 15.0% of net sales, compared to \$.6 million, or 9.6% of net sales, for the three months ended September 30, 2002.

Selling, general and administrative expenses for the three months ended September 30, 2003 were primarily made up of salaries, including payroll taxes and benefits (\$375,613), selling commissions (\$65,970) freight expenses (\$78,402), legal, accounting services (\$206,958) and insurance expense (\$40,703). Salaries increased \$157,279, or 72% from the same period last year, almost entirely due to administrative salaries which increased 102.1% from \$154,518 to \$305,736 due to our growth and to accommodate our planned expansion. Legal, accounting and other professional services increased \$151,022, or 270.0% from the same period last year due to costs associated with being a public company.

### OPERATING INCOME

Operating income for the three-month period ended September 30, 2003 decreased \$12,991 to \$345,055 as compared to \$358,046, or 3.6% as compared to the same period last year. The three-month period ended September 30, 2003 included an increase of approximately \$151,022 of legal and accounting costs, as compared to the same period in 2002.

### INCOME TAXES

The effective tax rate for the three months ended September 30, 2003 was 33% compared to 31% for 2002. The tax provision for the three months ended September 30, 2003 has resulted in a \$120,000 increase in additional paid in capital due to the utilization of deductions from stock options exercised during the period.

### Liquidity and Capital Resources

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We currently finance our operations and capital expenditures through cash flows from operations, bank loans, lines of credit, cash acquired in our reverse merger in May, 2003 and cash received from option exercises. Cash used in operating activities for the three-months ended September 30, 2003 was \$1,027,819, an increase of \$897,352 from the same period last year. This increase is primarily due to an increase in inventories in order to enable us to meet customer demand more rapidly.

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Net cash provided by investing activities was \$402,346 for the three-months ended September 30, 2003, which resulted from the proceeds of \$1.5 million notes from the Baar Group, Inc. relating to the sale of our computer operations which was offset by \$1.1 million of equipment purchases.

Net cash provided by financing activities was \$600,847 for the three months ended September 30, 2003, which resulted from \$2.7 million in proceeds from option exercises which were offset by \$2.1 million in repayments of bank notes and lines of credit.

As a result of our cash flows from operations and financing activities during the three months ended September 30, 2003, working capital increased \$2.5 million to \$7.8 million from \$5.2 million at June 30, 2003. In August 2003, we increased our credit lines from \$3.5 million to \$7 million. As of September 30, 2003, the amounts outstanding on these credit lines were 424,847. We believe that our increased working capital, cash provided by option exercises and increased credit lines will allow us to continue our expansion plans, and will be sufficient to meet our operating needs for the next 12 months.

At September 30, 2003, we had approximately \$7,680,000 in Federal net operating loss carryforwards ("NOLs") available to reduce future taxable income. These NOLs could result in savings of up to \$2,700,000 in future income tax payments (although there will be no effect on income tax expenses).

In addition, the exercise of 2,251,382 employee stock options and warrants from July 1, 2003 to September 30, 2003 resulted in additional future tax deductions approximating \$9,000,000, which could result in cash savings of up to \$3,000,000.

### INVENTORY

In late 2000 and early 2001, Interpharm, Inc. commenced a program to increase inventory production levels to meet increasing demand. At September 30, 2003, our inventory increased to \$6.9 million from \$4.6 million at June 30, 2003, primarily as a result of our program to increase inventory, but also because of a \$1 million bottleneck of inventory awaiting packaging and an increase in raw materials by approximately \$700,000 for new products Atenolol and Allopurinol.

### ACCOUNTS PAYABLE

The accounts payable, accrued expenses and other liabilities increased approximately \$538,274 in the three months ended September 30, 2003 as compared to June 30, 2003 due to the increase in inventories.

### CASH AND CASH EQUIVALENTS

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Cash and cash equivalents at September 30, 2003 were approximately \$2.4 million as compared to \$2.3 million at June 30, 2003. While net cash was increased by financing and investing activities, this was offset by equipment and inventory purchases and the repayment of credit lines.

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We believe that one of the most important factors in our ability to continue to grow our business will be our ability to launch new products. To that end, as set forth above, we have devoted, and plan to devote, substantially greater resources to our research and development efforts than we have in previous years. In addition, we are devoting the assets we acquired in becoming a public company, the cash obtained from options exercises and those resources we already had, to increasing our production capacity through the purchase of new equipment, acquiring a new production facility and improving our existing production facility.

While we anticipate that our cash flow and current credit arrangements will be sufficient for at least the next 12 to 18 months, we may choose to raise additional funds or seek other financing arrangements to facilitate more rapid expansion, to develop new products at a faster pace, or to acquire or invest in complimentary businesses, technologies, services or products.

### CRITICAL ACCOUNTING POLICIES

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

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

### REVENUE RECOGNITION

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

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

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### 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.

### ISSUES AND UNCERTAINTIES

#### RISK OF PRODUCT LIABILITY CLAIMS

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

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

We do not use any derivative financial instruments to hedge our exposure to adverse fluctuations in interest rates, fluctuations in commodity prices or other market risks, nor do we invest in speculative financial instruments. Borrowings under our lines of credit are indexed to the prime rate.

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

### ITEM 4 - CONTROLS AND PROCEDURES

#### Evaluation of Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required



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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, 2003, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, Chief Financial Officer and General Counsel, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chairman and Chief Executive Officer, Chief Financial Officer and General Counsel concluded that our disclosure controls and procedures were effective in alerting them in a timely manner to information relating to the Company required to be disclosed in this report but adopted additional disclosure controls and procedures to improve the quality and timeliness of disclosure during our transition from a private to a public company.

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### FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK

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

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

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES  
Other  
Information  
September 30, 2003

PART II  
OTHER INFORMATION

Item 1.- Legal Proceedings - None

Item 2.- Changes in Securities and use of Proceeds - In July, August and September 2003 we issued 2,241,382 shares of common stock upon the exercise of options. Proceeds received were \$2,714,980 and will be used for working capital needs.

Item 3.- Defaults Upon Senior Securities - None

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

Item 5.- Other Information - None

Item 6.- Exhibits and Report on Form 8-K - On July 15, 2003 we filed a Form 8-K that announced the financial results of our wholly owned subsidiary, Interpharm, Inc. for the quarter ended March 31, 2003. On August 11, 2003 we filed an amended Form 8-K that updated the information previously filed for the sale of our computer operations and the acquisition of Interpharm, Inc. The financial statements for Interpharm at March 31, 2003 were included and a proforma balance sheet was presented as at March 31, 2003.

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SIGNATURES

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

INTERPHARM HOLDINGS, INC.

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(Registrant)

Date: November 14, 2003

By: /S/ JAMES J. CHARLES

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James J. Charles,  
Chief Financial Officer  
(Duly authorized to sign on  
behalf of registrant)

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EXHIBITS

NUMBER	DESCRIPTION
31.1	Certification of Dr. Maganlal K. Sutaria pursuant to Exchange Act Rules 13(a)-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;
31.2	Certification of James Charles pursuant to Exchange Act Rules 13(a)-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002;

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