MANITOWOC CO INC
Form 4/A
February 15, 2017

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
PENNYPACKER BARRY

(Last) (First) (Middle)

2400 SOUTH 44TH STREET

(Street)

MANITOWOC, WI 54220

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MANITOWOC CO INC [MTW]

3. Date of Earliest Transaction (Month/Day/Year)
02/14/2017

4. If Amendment, Date Original Filed(Month/Day/Year)
02/14/2017

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)
President & CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/14/2017		P		78,000 (1) (2)	A	$ 6.3302	86,419.8279	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PENNYPACKER BARRY 2400 SOUTH 44TH STREET MANITOWOC, WI 54220			President & CEO	

Signatures

Louis F. Raymond, by Power of Attorney	02/15/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Weighted average price of shares purchased with price ranging from a low of $6.26 to a high of $6.35.

(2) The original filing contained the wrong "code" and the footnote contained the word "sold" instead of "purchase".

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 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 was 6.19 turns at June 30, 2004 and 6.23 at June 30, 2003. 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. 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, we plan to devote substantially greater resources to our research and development efforts than we have in previous years. In addition, we plan to continue to devote substantial resources to increasing our production capacity through the purchase of new equipment and otherwise improving our 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. 29 OUR OBLIGATIONS As of June 30, 2004, our obligations and the periods in which they are scheduled to become due are set forth in the following table: DUE IN LESS DUE DUE DUE THAN 1 IN 1-3 IN 4-5 AFTER 5 OBLIGATION TOTAL YEAR YEARS YEARS YEARS -- Lines of credit(1) $ 424,847 $ 424,847 $ -- $ -- $ -- Bank notes payable(1) $ 7,400,000 $ 339,197 $ 740,000 $ 740,000 $ 5,580,803 Operating leases $ 7,500,839 $ 620,839 $ 960,000 $ 960,000 $ 4,960,000 ------------ ------------ ------------ ------------ ------------ Total cash obligations $ 15,325,686 $ 1,384,883 $ 1,700,000 $ 1,700,000 $ 10,540,803 ============ ============ ============ ============ ============ (1) See "Bank Loans and Lines of Credit," below. The following are financial covenants related to the lines of credit and bank loans: o Minimum debt service ratio of at least 1.25 : 1.0, on a semi-annual basis; o Maximum debt to net worth ratio of not more than 1.2 : 1.0, on an annual basis; o 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 are in compliance with all of the above covenants. Bank Loans and Lines of Credit Our advised credit lines and loans are fully described in Note 8 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. 30 We also lease approximately 23,175 square feet of office space at 69 Mall Drive in Commack, New York for some of our executive offices. The lease for this office space expires in May 2005. The annual lease payments are approximately $187,000 and we have sublet 18,500 square feet for $164,000 per year. During the remaining eleven months of this lease, we have sublet approximately18,500 square feet for $139,000. FOR SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO JUNE 30, 2002 (All June 30, 2002 financial information is unaudited.) Financial Highlights o Net sales increased 27.3% or $3.2 million to $14.9 million from $11.7 million. o Gross profit increased 27.0% or $580,000 to $2.7 million from $2.1 million. o Operating income increased 15.6% or $168,000 to $1.2 million from $1.0 million. o 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. 31 We continued to increase our production capabilities to satisfy increasing demand from existing customers. The increase in production is attributable to our continued efforts to grow Naproxen, as well as increased production of Ibuprofen. 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. 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 $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. 32 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. LIQUIDITY AND CAPITAL RESOURCES 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. We believe that Interpharm, Inc.'s working capital and cash provided by operating activities are sufficient to meet its operating needs for the next 12 months. 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 $1.1 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 addition, promissory notes in the amount of $1.5 million from the purchaser of Atec Group, Inc.'s computer business were collected subsequent to June 30, 2003. 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. We believe that our increased liquidity will afford us the opportunity to increase our Research and Development expenditures on a more aggressive pace than in previous years. At June 30, 2003, we have approximately $7.7 million in Federal net operating loss carryforwards ("NOLs") available to reduce future taxable income. These NOLs could result in savings of up to $3.0 million in future income tax payments (although there will be no effect on income tax expenses). 33 In addition, the exercise of 2,251,382 employee stock options and warrants from July 1, 2003 to September 24, 2003 resulted in additional future tax deductions approximating $9.0 million which could result in cash savings of up to $3.0 million. 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 current 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. 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. 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, we plan to devote substantially greater resources to our research and development efforts than we have in previous years. In addition, we plan to continue to devote substantial resources to increasing our production capacity through the purchase of new equipment and otherwise improving our 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. 34 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. FISCAL YEAR ENDED DECEMBER 31, 2002 COMPARED TO DECEMBER 31, 2001 Financial Highlights o Net sales increased 32% or $5.9 million to $24.3 million from $18.4 million. o Gross profit increased 27% or $0.9 million to $4.4 million from $3.5 million. o Operating income increased 80% or $0.8 million to $1.8 million from $1.0 million. o Net income increased 104% or $535,854 to $1,050,419 from $514,565. Net Sales and Gross Profit Net sales for the fiscal year ended December 31, 2002 were $24.3 million compared to $18.4 million for the fiscal year ended December 31, 2001, an increase of $5.9 million. Of this 32% increase in net sales approximately $5.1 million is attributable to increased orders from existing customers spread evenly across Interpharm, Inc.'s product lines and resulting from Interpharm, Inc.'s increased production capacity and $800,000 is attributable to the introduction of Naproxen to Interpharm, Inc.'s product line. 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 from the fiscal year ended December 31, 2001 to the year ended December 31, 2002. Gross profit for the year ended December 31, 2002 was $4.4 million, an increase of 22% or $900,000 from the $3.5 million for the prior year. During the year ended December 31, 2002, two Interpharm, Inc. customers accounted for approximately 48% of Interpharm, Inc.'s total sales. Cost of Sales Cost of sales increased to $19.9 million in the fiscal year ended December 31, 2002, or 34% from $14.9 million in the prior year due to increased production. Approximately $3.7 million, or 73% of this increase is primarily raw material purchases and approximately $1.0 million, or 12%, was for increased labor costs. Raw material prices were constant during the period. Interpharm, Inc. increased its production to satisfy existing demand from existing customers which have additional purchasing capacity. The increase in production is attributable to the introduction of Naproxen as well as increased production of Ibuprofen and Iso Cap, the production of which increased 25% and 30% respectively. 35 Research and Development Research and development expenses for the fiscal year ended December 31, 2002 were $415,618, or 2% of net sales, compared to $110,000, or 1% of net sales in 2001, an increase of $305,618. 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 $2.1 million, in the year ended December 31, 2002, or 9% of net sales, compared to $2.0 million, or 11% of net sales, for 2001. Selling, general and administrative expenses for the fiscal year ended December 31, 2002 were primarily made up of salaries ($492,000), selling commissions ($164,000), freight expenses ($370,000), legal, accounting and other professional services ($328,000), repairs and maintenance costs ($74,000) and insurance expense ($23,000). Salaries increased $37,000 due to increases in staff to accommodate increased production. In addition, bad debt expense decreased by $214,000 due to the write-off of one customer balance in the preceding year and write-offs occurring during the year ended December 31, 2002 were $47,000. No sales were made to the customer whose balance was written off in the fiscal year ended December 31, 2002. Income Taxes The effective tax rate for the fiscal year ended December 31, 2002 was

32% compared to 29% for 2001. The increase in the effective tax rate for 2002 was primarily due to a decrease in the net deferred tax asset valuation allowance in the 2001 fiscal period. The 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. Management has 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 Interpharm, Inc.'s increased taxable income which has utilized more credits and management's estimate of future growth which has reduced the estimated credits that will not be utilized. LIQUIDITY AND CAPITAL RESOURCES - DECEMBER 31, 2002 Cash flows from operations were $1,747,585 during the fiscal year ended December 31, 2002, $906,343 during year ended December 31, 2001 and $353,293 during 2000. As a result of Interpharm, Inc.'s cash flows from operations during fiscal 2002, working capital increased $0.2 million to $2.3 million from $2.1 million in 2001. Net cash used in investing activities for the fiscal year ended December 31, 2002, 2001 and 2000 were $1,203,221, $964,259 and $175,583, respectively. These were all for the purchase of production equipment except for $19,011 in 2002 for the purchase of marketable securities. In the year ended 2002, Interpharm, Inc. used $1,044,176 to repay bank notes of $236,455 and loans to related parties of $807,721. In the year ended 2001, Interpharm, Inc. removed $313,166 of net equipment from service. 36 Accounts Receivable The accounts receivable increase from December 31, 2001 to December 31, 2002 is primarily attributable to the increase in sales throughout 2002. This increase resulted in an increased accounts receivable balance at December 31, 2002. The accounts receivable days outstanding for the periods December 31, 2001 through December 31, 2002 consistently ranged from 54-59 days. Inventory During the later part of 2000 and early 2001 Interpharm, Inc. commenced a program to increase inventory production levels to meet the demand for increasing sales. Due to the increase in sales at the end of 2001 Interpharm, Inc.'s inventory had decreased. During 2002 Interpharm, Inc. had increased production capacity to produce more inventory to meet future demand resulting in a more optimal level of inventory at December 31, 2002. The inventory turnover for the periods ended December 31, 2001 through December 31, 2002 has consistently improved with a decrease in number days sales in inventory from 58 days to 50 days. Accounts Payable The accounts payable, accrued expenses and other liabilities increase from December 31, 2001 to December 31, 2002 is primarily attributable to increased inventory production to meet future sales demands. Cash and Cash Equivalents The decrease in cash and cash equivalents from December 31, 2001 to December 31, 2002 of $478,069 is primarily attributable to $1,184,210 in equipment purchases and $1,044,176 to repay bank notes of $236,455 and loans to related parties of $807,721. These amounts were partially offset by $1,747,535 in net cash provided by operating activities. 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. 37 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 income. 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 $74,166 at June 30, 2004 and $47,776 at June 30, 2003. 38 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, 2004 was $4,182,000 and $2,561,400 at June 30, 2003. RECENT ACCOUNTING PRONOUNCEMENTS In January 2003, and revised in December 2003, the Financial Accounting Standards Board issued Interpretation No. 46R ("FIN 46"), "Consolidation of Variable Interest Entities." Prior to the issuance of this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. For these purposes, variable interests held by related parties should be combined with the reporting entity. FIN 46 is effective for our Company. The adoption of FIN 46 had no impact on our financial position, results of operation or cash flows. 39 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 $22.0 million credit facility. At June 30, 2004, $7.4 million mortgage note payable and borrowings of $425,000 under the line of credit was outstanding. The $425,000 borrowings were repaid subsequent to June 30, 2004. Any obligations created under this credit facility incur interest calculated at our option at (i) LIBOR plus 1.5% for periods ranging in length from 3 to 36 months, or (ii) at the Bank's then fixed prime rate. As of June 30, 2004, the interest rates on the borrowings and mortgage note payable were 4.5% and 2.86%, respectively. We are required to comply with certain financial covenants. The Bank will review the new credit facility annually; the next review is scheduled to occur no later than November 30, 2004. The credit lines are terminable by the Bank at any time as to undrawn amounts. 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. Due to the nature of our borrowings as described above and our relatively small amount of short-term investments, we have concluded that there is no material risk exposure which could occur as a result of possible changes in market interest rates. 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. Following the acquisition of Interpharm, Inc. by Atec Group, Inc., on June 9, 2003, we dismissed Weinick Sanders Leventhal & Co., LLP ("WSLCO") as our independent accountant. WSLCO had been previously engaged as the principal accountant to audit Atec Group, Inc.'s financial statements. The reason for the termination was the acquisition of Interpharm, Inc., which is now our primary business unit and which has been audited by the firm of Marcum & Kliegman LLP. We believe that it is in our best interests to have Marcum & Kliegman LLP continue to work with us. 40 WSLCO's report on Atec Group, Inc.'s financial statements for the previous two years did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles. The decision to change accountants was recommended by our Board of Directors and approved by the Audit Committee of our Board of Directors. During our two most recent fiscal years, and the subsequent interim periods, there were no disagreements with our accountants on any matter of accounting principles or practices, financial statement disclosure, auditing scope, or procedure, which disagreements, if not resolved to the satisfaction of our accountants, would have caused it to make reference to the subject matter of the disagreement in connection with its reports. On June 11, 2003, we retained Marcum & Kliegman LLP as our independent accountant. Marcum & Kliegman LLP is located at 130 Crossways Park Drive, Woodbury, New York 11797. 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, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, Chief Financial Officer and General Counsel, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chairman and Chief Executive Officer, Chief Financial Officer and General Counsel concluded that our disclosure controls and procedures were effective in alerting them in a timely manner to information relating to the Company required to be disclosed in this report but adopted additional disclosure controls and procedures to improve the quality and timeliness of disclosure during our transition from a private to a public company. 41 On September 20, 2004, our independent registered accounting firm Marcum & Kliegman, LLP ("MK"), informed us and our Audit Committee of the Board of Directors that in connection with their review of our financial results for the fiscal year ended June 30, 2004, MK had discovered a condition which they deemed to be a material weakness in our internal controls (as defined by standards established by the Public Company Accounting Oversight Board). MK noted the lack of adequate internal control / review procedures required to properly and timely record customer chargebacks. Management has informed MK and the Audit Committee that it is modifying its internal control / review procedures in such a manner that it believes will prevent reoccurrences of this deficiency. The impact of the above condition was isolated to the fiscal quarter ended June 30, 2004, and did not affect the results of any prior periods. ITEM 9B OTHER INFORMATION None 42 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 2004 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 2004 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 2004 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. 43 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. 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 2004 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, 2004 and June 30, 2003 Consolidated Statements of Income for the year ended June 30, 2004, for the six-months ended June 30, 2003 and 2002 and for the years ended December 31, 2002 and 2001 Consolidated Statement of Stockholders' Equity for the year ended June 30, 2004, for the six-months ended June 30, 2003 and 2002 and for the years ended December 31, 2002 and 2001 Consolidated Statements of Comprehensive Income for the year ended June 30, 2004, for the six-months ended June 30, 2003 and 2002 and for the years ended December 31, 2002 and 2001 Consolidated Statements of Cash Flows for the year ended June 30, 2004, for the six-months ended June 30, 2003 and 2002 and for the years ended December 31, 2002 and 2001 (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. 44 (b) REPORTS ON FORM 8-K We filed the following reports on Form 8-K in the quarter ended June 30, 2004: REPORT DATE ITEM REPORTED ----------- ------------ June 30, 2004 The June 29, 2004 closing of the acquisition of a 92,000 square foot facility on thirty seven acres of land, located in Brookhaven, New York. June 11, 2004 The conversion of a portion of our Series K convertible preferred stock. May 17, 2004 Announcing our financial results for the three and nine-months ended March 31, 2004. April 21, 2004 Announcing the resignation of Bhupatlal K. Sutaria and Praveen Bhutani as directors and the appointment as Directors of Dr. Mark Goodman and James Charles. (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); 45 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 Road, Yaphank, N.Y. 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-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002; 31.2 Certification of George Aronson pursuant to Exchange Act Rules 13a-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; 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. 46 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/ Dr. Maganlal K. Sutaria --- Dr. Maganlal K. Sutaria, Chief Executive Officer and Chairman of the Board of Directors Dated: September 28, 2004 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, 2004 -- George Aronson, Chief Financial Executive Officer /s/ Bhupatlal K. Sutaria September 28, 2004 -- Bhupatlal K. Sutaria, President and Treasurer /s/ Surinder Rametra September 28, 2004 -- Surinder Rametra, Director of Corporate Development and Director /s/ Dr. Mark Goodman September 28, 2004 -- Dr. Mark Goodman, Director /s/

Stewart Benjamin September 28, 2004 -- Stewart Benjamin, Director /s/ David Reback September 28, 2004 -- David Reback, Director /s/ James Charles September 28, 2004 -- James Charles, Diretor /s/ Cameron Reid September 28, 2004 -- Cameron Reid, Director 47 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended June 30, 2004, for the Six Months Ended June 30, 2003 and 2002 (Unaudited) and for the Years Ended December 31, 2002, and 2001 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONTENTS --- Page REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM F-1 CONSOLIDATED FINANCIAL STATEMENTS Consolidated Balance Sheets F-2 Consolidated Statements of Income F-4 Consolidated Statement of Stockholders' Equity F-5 Consolidated Statements of Comprehensive Income F-6 Consolidated Statements of Cash Flows F-7 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS F-10 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, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for the year ended June 30, 2004, the six month period ended June 30, 2003 and for the years ended December 31, 2002 and 2001. 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 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2004 and 2003, and the consolidated results of its operations and its cash flows for the year ended June 30, 2004, the six month period ended June 30, 2003 and the years ended December 31, 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America. /s/ Marcum & Kliegman LLP Woodbury, New York September 15, 2004 F-1 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS --- ASSETS June 30, -------------------------- 2004 2003 -------------------------- CURRENT ASSETS Cash and cash equivalents $ 2,884,639 $ 2,336,203 Marketable securities, at fair market value 36,791 48,462 Accounts receivable, net 6,849,778 4,930,109 Notes receivable, current -- 1,000,000 Inventories, net 5,530,161 4,583,205 Prepaid expenses and other current assets 453,157 224,149 Deferred tax assets 1,280,000 23,500 ----------- ----------- Total Current Assets 17,034,526 13,145,628 Land, building and equipment, net 15,007,132 4,085,302 Notes receivable, long-term -- 524,092 Deferred tax assets 2,902,000 2,537,900 Deposits 224,287 45,873 ----------- ----------- TOTAL ASSETS $35,167,945 $20,338,795 =========== =========== The accompanying notes are an integral part of these consolidated financial statements. F-2 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS --- LIABILITIES AND STOCKHOLDERS' EQUITY June 30, --------------------------- 2004 2003 --------------------------- CURRENT LIABILITIES Current maturities of bank debt $ 764,014 $ 2,289,034 Accounts payable, accrued expenses and other liabilities 4,545,345 5,314,341 ------------ ------------ Total Current Liabilities 5,309,359 7,603,375 ------------ ------------ OTHER LIABILITIES Bank debt, less current maturities 7,060,833 237,521 Other liabilities 14,968 29,535 ------------ ------------ Total Other Liabilities 7,075,801 267,056 ------------ ------------ TOTAL LIABILITIES 12,385,160 7,870,431 ------------ ------------ COMMITMENTS AND CONTINGENCIES STOCKHOLDERS' EQUITY Preferred stocks, 10,000,000 shares authorized; issued and outstanding - 6,902,963 and 7,300,876, respectively; aggregate liquidation preference of $5,494,080 348,042 352,021 Common stock, $.01 par value,70,000,000 shares authorized; shares issued - 25,591,311 and 15,671,649 respectively 255,913 156,717 Additional paid-in capital 19,184,291 12,076,237 Accumulated other comprehensive (loss) income (92) 11,579 Retained earnings 3,792,499 669,678 Treasury stock at cost, 624,145 shares (797,868) (797,868) ------------ ------------ TOTAL STOCKHOLDERS' EQUITY 22,782,785 12,468,364 ------------ ------------ TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $

35,167,945 $ 20,338,795 ============ ============ The accompanying notes are an integral part of these consolidated financial statements. F-3 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME --- Year Ended Six Months Ended June 30, Year Ended December 31, June 30, --- 2004 2003 2002 2002 2001 --- (Unaudited) SALES, Net $41,099,728 $14,953,438 $11,743,440 $24,312,245 $18,435,446 COST OF SALES (including related party rent expense of $408,000 for the year ended June 30, 2004, $204,000 for the six months ended June 30, 2003 and 2002 and $408,000 and $399,500 for the years ended December 31, 2002 and 2001, respectively) 31,304,893 12,214,822 9,587,344 19,872,936 14,939,725 ------------ ------------ ------------ ------------ ----------- GROSS PROFIT 9,794,835 2,738,616 2,156,096 4,439,309 3,495,721 ------------ ------------ ------------ ------------ ------------ OPERATING EXPENSES Selling, general and administrative expenses 4,124,261 1,274,445 896,276 2,107,694 1,966,098 Loss on disposal of equipment -- -- -- -- 313,166 Related party rent expense 72,000 36,000 36,000 72,000 70,500 Research and development 538,199 185,601 148,850 415,618 110,000 ------------ ------------ ------------ ------------ ------------ TOTAL OPERATING EXPENSES 4,734,460 1,496,046 1,081,126 2,595,312 2,459,764 ------------ ------------ ------------ ------------ ------------ OPERATING INCOME 5,060,375 1,242,570 1,074,970 1,843,997 1,035,957 ------------ ------------ ------------ ------------ ------------ OTHER INCOME (EXPENSES) Related party interest expense -- (69,125) (94,063) (188,125) (188,126) Interest expense (21,367) (63,299) (52,542) (102,103) (119,434) Interest and other income 69,451 8,166 -- 63 452 ------------ ------------ ------------ ------------ ------------ TOTAL OTHER INCOME (EXPENSES) 48,084 (124,258) (146,605) (290,165) (307,108) ------------ ------------ ------------ ------------ ------------ INCOME BEFORE INCOME TAXES 5,108,459 1,118,312 928,365 1,553,832 728,849 PROVISION FOR INCOME TAXES 1,985,638 394,667 317,563 503,413 214,284 ------------ ------------ ------------ ------------ ------------ NET INCOME $ 3,122,821 $ 723,645 $ 610,802 $ 1,050,419 $ 514,565 ============ ============ ============ ============ ============ EARNINGS PER SHARE Basic earnings per share $ 0.16 $ 0.08 $ 0.07 $ 0.13 $ 0.06 ============ ============ ============ ============ ============ Diluted earnings per share $ 0.04 $ 0.02 $ 0.02 $ 0.03 $ 0.01 ============ ============ ============ ============ ============ Basic weighted average shares outstanding 17,594,979 7,721,524 6,151,178 6,151,178 6,151,178 ============ ============ ============ ============ ============ Diluted weighted average shares and equivalent shares outstanding 68,637,185 41,664,357 35,935,062 35,935,062 35,935,062 ============ ============ ============ ============ ============ The accompanying notes are an integral part of these consolidated financial statements. F-4 INTERPHARM HOLDINGS, INC. AND SUBISIDARIES CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY --- Additional Preferred Stock Common Stock Paid-In Shares Amount Shares Amount Capital -- BALANCE - January 1, 2001 2,050,393 $ 20,504 6,151,178 $ 61,512 $ 2,287,984 Unrealized gain on marketable securities, net -- -- -- -- -- Net income -- -- -- -- -- ----------- ----------- ----------- ----------- ----------- BALANCE - December 31, 2001 2,050,393 20,504 6,151,178 61,512 2,287,984 Unrealized loss on marketable securities, net -- -- -- -- -- Net income -- -- -- -- -- ----------- ----------- ----------- ----------- ----------- BALANCE - December 31, 2002 2,050,393 20,504 6,151,178 61,512 2,287,984 Outstanding equity securities of ATEC Group, Inc. 395,094 282,963 9,495,471 94,955 6,494,432 Conversion of related party notes payable to Series A-1 preferred stock 4,855,389 48,554 -- -- 3,262,821 Shares issued for option exercised -- -- 25,000 250 31,000 Unrealized gain on marketable securities, net -- -- -- -- -- Net income -- -- -- -- -- ----------- ----------- ----------- ----------- ----------- BALANCE - June 30, 2003 7,300,876 352,021 15,671,649 156,717 12,076,237 Shares issued for options and warrants exercised -- -- 3,535,887 35,358 3,484,784 Tax benefit in connection with exercise of stock options -- -- -- -- 3,679,100 Adjustments related to reverse merger -- -- 4,000 40 3,989 Conversion of Series J preferred stock (105,000) (1,050) 105,000 1,050 -- Conversion of Series K preferred stock (292,913) (2,929) 6,274,775 62,748 (59,819) Unrealized loss on marketable securities, net -- -- -- -- -- Net income -- -- -- -- -- ----------- ----------- ----------- ----------- ------------ BALANCE - June 30, 2004 6,902,963 $ 348,042 25,591,311 $ 255,913 $ 19,184,291 ============ ============ ============ ============ ============ Accumulated Other Retained Total Comprehensive Earnings/ Treasury Stock Stockholders' Income (Loss) (Deficit) Shares Amount Equity -- BALANCE - January 1, 2001 $ (14,529) $ (1,618,951) -- $ -- $ 736,520 Unrealized gain on marketable securities, net 16,972 -- -- -- 16,972 Net income -- 514,565 -- --

514,565 ------------ ------------ ------------ ------------ ------------ BALANCE - December 31, 2001 2,443 (1,104,386) -- -- 1,268,057 Unrealized loss on marketable securities, net (3,334) -- -- -- (3,334) Net income -- 1,050,419 -- -- 1,050,419 ------------ ------------ ------------ ------------ ------------ BALANCE - December 31, 2002 (891) (53,967) -- -- 2,315,142 Outstanding equity securities of ATEC Group, Inc. -- -- 624,145 (797,868) 6,074,482 Conversion of related party notes payable to Series A-1 preferred stock -- -- -- -- 3,311,375 Shares issued for option exercised -- -- -- -- 31,250 Unrealized gain on marketable securities, net 12,470 -- -- -- 12,470 Net income -- 723,645 -- -- 723,645 ------------ ------------ ------------ ------------ ------------ BALANCE - June 30, 2003 11,579 669,678 624,145 (797,868) 12,468,364 Shares issued for options and warrants exercised -- -- -- -- 3,520,142 Tax benefit in connection with exercise of stock options -- -- -- -- 3,679,100 Adjustments related to reverse merger -- -- -- -- 4,029 Conversion of Series J preferred stock -- -- -- -- -- Conversion of Series K preferred stock -- -- -- -- -- Unrealized loss on marketable securities, net (11,671) -- -- -- (11,671) Net income -- 3,122,821 -- -- 3,122,821 ------------ ------------ ------------ ------------ ------------ BALANCE - June 30, 2004 $ (92) $ 3,792,499 624,145 $ (797,868) $ 22,782,785 ============ ============ ============ ============ ============ The accompanying notes are an integral part of these consolidated financial statements. F-5 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME --- Year Ended Six Months Ended June 30, Year Ended December 31, June 30, -- 2004 2003 2002 2002 2001 --- (Unaudited) NET INCOME $ 3,122,821 $ 723,645 $ 610,802 $ 1,050,419 $ 514,565 OTHER COMPREHENSIVE INCOME Unrealized (loss) gain on marketable securities, net (11,671) 12,470 (3,677) (3,334) 16,972 ----------- ----------- ----------- ----------- ----------- TOTAL COMPREHENSIVE INCOME $ 3,111,150 $ 736,115 $ 607,125 $ 1,047,085 $ 531,537 =========== =========== =========== =========== =========== The accompanying notes are an integral part of these consolidated financial statements. F-6 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS --- Year Ended Six Months Ended June 30, Year Ended December 31, June 30, -- 2004 2003 2002 2002 2001 --- (Unaudited) CASH FLOWS FROM OPERATING ACTIVITIES Net income $ 3,122,821 $ 723,645 $ 610,802 $ 1,050,419 $ 514,565 ----------- ----------- ----------- ----------- ----------- Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amortization 886,141 317,034 221,253 494,986 378,208 Deferred tax expense (benefit) 1,998,500 116,100 58,000 79,500 (32,000) Accrued interest on related party loans -- 6,625 94,063 188,125 188,126 Provision for doubtful accounts 40,000 40,200 -- 47,165 261,641 (Gain) loss on disposal of equipment (2,554) -- -- -- 313,166 Changes in operating assets and liabilities: Accounts receivable (1,959,669) (812,167) (417,855) (308,583) (2,465,379) Inventories (946,956) (1,194,106) (471,685) (1,219,985) 439,690 Prepaid expenses and other current assets (229,008) (152,671) (42,306) 76,195 (13,305) Deposits (178,414) -- -- -- -- Accounts payable, accrued expenses and other liabilities (783,563) 1,155,772 679,806 1,339,713 1,321,631 ----------- ----------- ----------- ----------- ----------- TOTAL ADJUSTMENTS (1,175,523) (523,213) 121,276 697,116 391,778 ----------- ----------- ----------- ----------- ----------- NET CASH PROVIDED BY OPERATING ACTIVITIES 1,947,298 200,432 732,078 1,747,535 906,343 ----------- ----------- ----------- ----------- ----------- CASH FLOWS FROM INVESTING ACTIVITIES Purchase of marketable securities -- -- (19,011) (19,011) -- Proceeds from notes receivable 1,524,092 -- -- -- -- Proceeds from sale of equipment 19,000 -- -- -- -- Purchases of land, building and equipment (4,424,417) (1,031,403) (730,859) (1,184,210) (964,259) ----------- ----------- ----------- ----------- ----------- NET CASH USED IN INVESTING ACTIVITIES $(2,881,325) $(1,031,403) $ (749,870) $(1,203,221) $ (964,259) ----------- ----------- ----------- ----------- ----------- The accompanying notes are an integral part of these consolidated financial statements. F-7 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued --- Year Ended Six Months Ended June 30, Year Ended December 31, June 30, -- 2004 2003 2002 2002 2001 --- (Unaudited) CASH FLOWS FROM FINANCING ACTIVITIES (Repayment of) proceeds from bank debt $(2,101,708) $ 962,625 $ (98,454) $ (214,662) $ 428,998 Due to related parties -- -- (24,000) (807,721) (214,500) Cash received in reverse merger transaction 64,029 2,067,510 -- -- -- Proceeds from options and warrants exercised 3,520,142 31,250 -- -- -- ---------- ---------- ---------- ---------- ---------- NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES 1,482,463 3,061,385 (122,454)

(1,022,383) 214,498 ----------- ----------- ----------- ----------- ----------- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 548,436 2,230,414 (140,246) (478,069) 156,582 CASH AND CASH EQUIVALENTS - Beginning 2,336,203 105,789 583,858 583,858 427,276 ----------- ----------- ----------- ----------- ----------- CASH AND CASH EQUIVALENTS - Ending $ 2,884,639 $ 2,336,203 $ 443,612 $ 105,789 $ 583,858 =========== =========== =========== =========== =========== SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the periods for: Interest $ 21,367 $ 125,799 $ 52,542 $ 412,230 $ 332,135 Income Taxes $ 110,013 $ 348,302 $ 227,728 $ 405,047 $ 184,905 The accompanying notes are an integral part of these consolidated financial statements. F-8 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued -- Year Ended Six Months Ended June 30, Year Ended December 31, June 30, --- 2004 2003 2002 2002 2001 -- (Unaudited) Non-cash investing and financing activities: Mortgage loan utilized to acquire new facility (Note 6) $ 7,400,000 $ -- $ -- $ -- $ -- =========== =========== ========== =========== ========== Conversion of related party notes payable to Series A-1 preferred stock $ -- $ 3,311,375 $ -- $ -- $ -- =========== =========== ========== =========== ========== Reverse merger (Note 1) Cash received, net of $190,051 of transaction costs paid in 2003 $ 64,029 $ 2,067,510 $ -- $ -- $ -- Equipment -- 11,965 -- -- -- Notes receivable -- 1,524,092 -- -- -- Deposits -- 34,494 -- -- -- Deferred tax assets (60,000) 2,610,000 -- -- -- Accounts payable -- (144,044) -- -- -- Other liabilities -- (29,535) -- -- -- ----------- ----------- ---------- ----------- ---------- Net assets obtained in reverse merger transaction $ 4,029 $ 6,074,482 $ -- $ -- $ -- =========== =========== ========== =========== ========== The accompanying notes are an integral part of these consolidated financial statements. F-9 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 12. 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. On June 6, 2003, the minority owner of Interpharm, Inc.'s 50% owned subsidiary transferred its interest to Interpharm, Inc. in exchange for the forgiveness of a $40,000 advance due from the minority owner. As a result, the subsidiary became wholly-owned by the Company. This subsidiary has been consolidated for all periods presented. F-10 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- 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 income. 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 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 year ended June 30, 2004, the six month periods ended June 30, 2003 and 2002 and for the years ended December 31, 2002 and 2001, the Company purchased raw materials from the two suppliers totaling approximately $12,367,000, $3,573,000, $3,693,000, $6,805,000 and $2,189,000, respectively and sold finished goods to such suppliers totaling approximately $22,625,000, $5,795,000, $5,290,000, $10,745,000 and $3,601,000, 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. F-11 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- 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. 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. 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 income. 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. Cash and Cash Equivalents For purposes of the statement of cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Comprehensive Income In accordance with Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," the Company reports comprehensive income in addition to net income. Comprehensive 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 income. F-12 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

--- NOTE 1 - Summary of Significant Accounting Policies, continued Use of Estimates in the Financial Statements The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include deferred tax asset valuations and inventory overhead costing estimates. 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 an 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. 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 income 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 income. Shipping Costs The Company's shipping and handling costs are included in selling, general and administrative expenses. For the year ended June 30, 2004, the six months ended June 30, 2003 and 2002 and for the years ended December 31, 2002 and 2001, shipping and handling costs approximated $419,000, $198,000, $181,000, $370,000 and $248,000, respectively. F-13 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 1 - Summary of Significant Accounting Policies, continued Research and Development Research and development is expensed as incurred. 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, 2004, the Company has cash investments totaling approximately $4,192,000 at two financial institutions. Concentrations of credit risk with respect to accounts receivable are disclosed in Note 14. 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 approximates 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 income. Stock Based Compensation At June 30, 2004, the Company had two stock-based employee plans. As permitted under Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amended SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangements as defined by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of APB No. 25. No stock-based employee compensation cost is reflected in operations, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation: F-14 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 1 - Summary of Significant Accounting Policies, continued Stock Based Compensation, continued Year Ended Six Months Year Ended June 30, Ended June 30, December 31, 2004 2003 2002 2001 -- Net income as Reported $ 3,122,821 $ 723,645 $ 1,050,419 $ 514,565 Less: Stock-based employee compensation expense determined under fair value- based method for all awards, net of income tax 803,544 60,000 -- -- ----------- --------- ----------- ----------- Pro forma $ 2,319,277 $ 663,645 $ 1,050,419 $ 514,565 =========== ========= =========== =========== Basic net income per share As reported $ .16 $ .08 $ .13 $ .06 =========== ========= =========== =========== Pro forma $ .11 $ .07 $ .13 $ .06 =========== ========= =========== =========== Diluted net income per share As reported $ .04 $ .02 $ .03 $ .01 =========== ========= =========== =========== Pro forma $ .03 $ .02 $ .03 $ .01 =========== ========= =========== =========== 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 126% to 135%, (2) risk-free interest rates ranging from 4.25% to 4.50% and (3) expected average lives of 10 years. New Accounting Pronouncement In January 2003, and revised in December 2003, the Financial Accounting Standards Board issued Interpretation No. 46R ("FIN 46"), "Consolidation of Variable Interest Entities." Prior to the issuance of this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. For these purposes, variable interests held by related parties should be combined with the reporting entity. FIN 46 is effective for the Company. The adoption of FIN 46 had no impact on the Company's financial position, results of operation or cash flows. F-15 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 2 - Marketable Securities Management has classified its equity securities as available-for-sale securities, which are reported at fair market value. The costs and fair market value of marketable securities are as follows: June 30, ------------------- 2004 2003 -------------------- Cost $ 36,883 $ 36,883 Unrealized (loss) gain (92) 11,579 -------- -------- Fair market value $ 36,791 $ 48,462 ======== ======== NOTE 3 - Accounts Receivable Accounts receivable is shown net of allowance for doubtful accounts of $74,166 and $47,776 at June 30, 2004 and 2003, respectively. The changes in the allowance for doubtful accounts are summarized as follows: Six Months Year Ended Ended Year Ended June 30, June 30, December 31, --- 2004 2003 2002 2001 --- Beginning balance $ 47,776 $ 47,776 $ 47,776 $ 26,950 Provision for doubtful accounts 40,000 40,200 47,165 261,641 Charge-offs (13,610) (40,200) (47,165) (240,815) --------- --------- --------- --------- Ending balance $ 74,166 $ 47,776 $ 47,776 $ 47,776 ========= ========= ========= ========= NOTE 4 - Inventories Inventories consist of the following: June 30, ---------------------- 2004 2003 ---------------------- Finished goods $ 534,175 $ 347,189 Work in process 2,710,270 2,227,139 Raw materials 1,932,971 1,733,109 Packaging materials 352,745 275,768 ---------- ---------- Total $5,530,161 $4,583,205 ========== ========== F-16 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 4 - Inventories, continued 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. NOTE 5 - Notes Receivable Two notes receivable acquired as part of the reverse merger (Note 1) with an aggregate amount of $1,524,092 were repaid in full during the three months ended September 30, 2003. NOTE 6 - Land, Building and Equipment Land, building and equipment consists of the following: June 30, Estimated -------------------------- Useful 2004 2003 Lives -- Land $ 4,924,000 $ -- Building 4,475,482 -- 20 Years Machinery and equipment 5,457,395 3,454,147 5-7 Years Furniture and fixtures 319,762 107,565 5 Years Leasehold improvements 2,623,203 2,095,845 5-15 Years Construction in progress (a) -- 346,648 ----------- ----------- 17,799,842 6,004,205 Less: accumulated depreciation and amortization 2,792,710 1,918,903 ----------- ----------- Land, Building & Equipment, net $15,007,132 $ 4,085,302 =========== =========== (a) Construction in progress represents costs of constructing a manufacturing equipment line in the Company's current facility. The equipment was placed in service in fiscal 2004. 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 year ended June 30, 2004, the six month period ended June 30, 2003 and for the years ended

December 31, 2002 and 2001 was $886,141, $317,034, $494,986 and $378,208, respectively. F-17 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 7 - Accounts Payable, Accrued Expenses and Other Liabilities Accounts payable, accrued expenses and other liabilities consist of the following: June 30, ---------------------- 2004 2003 ---------------------- Trade accounts payable $3,455,444 $4,927,448 Accrued expenses and other current liabilities 1,089,901 386,893 ---------- ---------- Total $4,545,345 $5,314,341 ========== ========== NOTE 8 - Bank Debt The Company had a credit facility agreement with a Bank, which consisted of an advised secured line of credit totaling $5,000,000 and a $2,000,000 non-revolving secured facility for equipment purchases. Borrowings under this credit facility were collateralized by substantially all assets of the Company and personally guaranteed by four of the Company's stockholders. In addition, the Company was required to comply with certain financial covenants. As of June 30, 2004, the Company had outstanding borrowings of $424,847 under the line of credit. Subsequent to June 30, 2004, the Company paid down this entire balance. On March 29, 2004, the Company obtained a $21 million credit facility from the same Bank. The new credit facility consists of (i) a $7.4 million mortgage loan for the purchase of the Company's second manufacturing plant in Brookhaven, NY (Note 6); (ii) $8.6 million of credit lines primarily to acquire new equipment and for renovations, and (iii) a $5 million general line of credit. This credit facility replaces the $7 million credit facility discussed above. Details of the new facility are as follows: o The $7,400,000 mortgage loan is to be repaid with 119 monthly principal installments of $30,833 commencing on August 1, 2004 with the balance due June 1, 2014. o 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 to fully amortizing five year term loans. o A $2,000,000 advised non-revolving secured facility for equipment purchases (the "Term Loan Line"). Each advance cannot exceed 90% of the invoice amount of the new equipment and is convertible into separate notes that fully amortize over 60 months. o The $5,000,000 advised secured line of credit is primarily for working capital and general corporate purposes. F-18 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 8 - Bank Debt, continued This new credit facility is collateralized by substantially all assets of the Company and no longer requires personal guarantees of four of the Company's stockholders. At the option of the Company, interest will generally be calculated at (i) LIBOR plus 1.5% for 3 to 36 month periods, or at (ii) the Bank's then fixed prime rate. As of June 30, 2004, the interest rates on the working capital line and mortgage note payable were 4.5% and 2.86%, respectively. In addition, the Company is required to comply with certain financial covenants. The Bank will review the new credit facility annually; the next review is scheduled to occur no later than November 30, 2004. The credit lines are terminable by the Bank at any time as to undrawn amounts. A summary of the outstanding balances is as follows: June 30, ---------------------- 2004 2003 ---------------------- Working capital lines $ 424,847 $2,064,793 Mortgage note payable 7,400,000 -- Equipment notes payable -- 461,762 ---------- ---------- Total Long-Term Debt 7,824,847 2,526,555 Less: current maturities 764,014 2,289,034 ---------- ---------- Long-Term Debt, Less Current Maturities $7,060,833 $ 237,521 ========== ========== Scheduled annual maturities of the bank debt are as follows: For the Year Ending June 30, Amount -- 2005 $ 764,014 2006 370,000 2007 370,000 2008 370,000 2009 370,000 Thereafter 5,580,833 ---------- Total $7,824,847 ========== F-19 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 9 - Related Party Lease The Company leases its business premises ("Premises") from an entity controlled by three stockholders 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. Future annual minimum rental payments under this operating lease are as follows: For the Year Ending June 30, Amount -------------------------------------- 2005 $ 480,000 2006 480,000 2007 480,000 2008 480,000 2009 480,000 Thereafter 4,960,000 ---------- Total $7,360,000 ========== The lease does not grant the Company the option to purchase the Premises at any time during the lease term or at its termination, nor will the Company share in any proceeds that may result from sale or disposition of the Premises. Three of the stockholders of the Company purchased the Premises by making cash payments in the amount of $1,255,000 and by issuing $3,720,000 in mortgage notes. Repayment of the mortgage notes had been guaranteed for the term of the mortgage primarily by the three stockholders. Repayment of the mortgage notes was secondarily guaranteed by the Company; however, on September 26, 2003, the bank agreed to terminate the Company's guarantee. F-20 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 10 - Income Taxes The income tax (benefit) expense is comprised of the following: Year Ended Year Ended Six Months December 31, June 30, Ended June 30, ------------------------ 2004 2003 2002 2001 --- Current Federal $ (30,967) $ 243,255 $ 404,663 $ 240,635 State 18,105 35,312 19,250 5,649 ----------- ----------- ----------- ----------- Total Current (12,862) 278,567 423,913 246,284 ----------- ----------- ----------- ----------- Deferred Federal 1,785,200 119,500 67,100 4,000 State 213,300 (3,400) 12,400 (36,000) ----------- ----------- ----------- ----------- Total Deferred 1,998,500 116,100 79,500 (32,000) ----------- ----------- ----------- ----------- Provision for Income Taxes $ 1,985,638 $ 394,667 $ 503,413 $ 214,284 =========== =========== =========== =========== The Company's effective income tax rate differs from the statutory U.S. Federal income tax rate as a result of the following: Six Months Year Ended Year Ended Ended December 31, June 30, June 30, ---------------- 2004 2003 2002 2001 -- Statutory U.S. federal tax rate 34.0% 34.0% 34.0% 34.0% State taxes 3.0 2.0 1.2 1.2 Permanent differences 0.2 (0.7) (0.9) (0.6) Change in valuation allowance 0.7 (0.4) (1.5) (4.4) Other 1.0 0.4 (0.4) (0.8) ---- ---- ---- ---- Effective income tax rate 38.9% 35.3% 32.4% 29.4% ==== ==== ==== ==== F-21 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 10 - Income Taxes, continued The components of deferred tax assets and liabilities consist of the following: June 30, ------------------------- 2004 2003 ------------------------- Deferred Tax Assets, Current Portion Capitalized inventory $ 17,000 $ 7,000 Receivable allowance and reserves 27,000 16,500 Other 45,000 -- Net operating loss carryforwards 1,191,000 -- ----------- ----------- Deferred Tax Assets, current $ 1,280,000 $ 23,500 =========== =========== Deferred Tax Assets, Non-Current Portion Investment tax credits $ 518,000 $ 302,000 Other -- 26,600 Net operating loss carryforwards 3,295,000 3,067,300 ----------- ----------- 3,813,000 3,395,900 Valuation allowance (620,000) (650,000) ----------- ----------- Deferred Tax Assets, Non-Current 3,193,000 2,745,900 ----------- ----------- Deferred Tax Liabilities, Non-Current Portion Depreciation and amortization (291,000) (208,000) ----------- ----------- Deferred Tax Assets, Non-Current, net 2,902,000 2,537,900 ----------- ----------- Total Deferred Tax Assets, Net $ 4,182,000 $ 2,561,400 =========== =========== As part of the reverse merger transaction (Note 1), approximately $7,370,000 of ATEC's net operating loss carryforwards ("NOLs") are available to the Company. During the year ended June 30, 2004, stock options were exercised which generated approximately $9,900,000 of income tax deductions, resulting in a tax benefit of $3,679,100 which was credited to additional paid-in capital. At June 30, 2004 the Company has remaining Federal NOLs of approximately $12,170,000 and State NOLs of approximately $11,600,000 expiring through 2024. Pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership, utilization of approximately $11,640,000 of these NOLs is limited to approximately $2,690,000 per year, plus any prior years' amount not utilized, if any. As of June 30, 2004, the Company has determined that it is more likely than not, that the Company will utilize all of the Federal NOLs in the future. The Company reserved approximately 30% of the State NOLs which the Company does not anticipate utilizing due to State limitations. F-22 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 10 - Income Taxes, continued In addition, at June 30, 2004, the Company has approximately $518,000 of New York State investment tax credit carryforwards, expiring in various years through 2019. 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 11 - Earning Per Share The calculations of basic and diluted EPS are as follows: Six Months Ended Year Ended Year Ended June 30, December 31, June 30, -- 2004 2003 2002 2002 2001 --- Numerator: Net income $ 3,122,821 $ 723,645 $ 610,802 $ 1,050,419 $ 514,565 Less: Preferred stock dividend 165,569 13,150 -- -- -- Less: Net income attributable to Series K preferred stockholders 194,476 86,765 152,701 262,605 128,641 ----------- ----------- ----------- ----------- ----------- Numerator for basic EPS 2,762,776 623,730 458,101 787,814 385,924 Effect of dilutive securities: Net income attributable to Series K preferred stockholders 194,476 86,765 152,701 262,605 128,641 ----------- ----------- ----------- ----------- ----------- Numerator for diluted EPS $ 2,957,252 $ 710,495 $ 610,802 $ 1,050,419 $ 514,565

=========== =========== =========== =========== =========== Denominator: Denominator for basic EPS Weighted average shares outstanding 17,594,979 7,721,524 6,151,178 6,151,178 6,151,178 Effect of dilutive securities: Convertible Series K preferred stock 43,460,533 32,609,356 29,783,884 29,783,884 29,783,884 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 68,637,185 41,664,357 35,935,062 35,935,062 35,935,062 =========== =========== =========== =========== =========== Basic EPS $ .16 $ .08 $ .07 $ .13 $ .06 =========== =========== =========== =========== =========== Diluted EPS $ .04 $ .02 $ .02 $ .03 $ .01 =========== =========== =========== =========== =========== F-23 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- NOTE 11 - Earning Per Share, continued As of June 30, 2004, the total number of common shares outstanding and the number of common shares potentially issuable upon exercise of all outstanding stock options and conversion of preferred stocks (including contingent conversions) is as follows: Common stock outstanding 24,967,166 Stock options outstanding (see Note 12) 10,460,000 Common stock issuable upon conversion of preferred stocks: Series A 1,526 Series A-1 (maximum contingent conversion) (a) 4,855,389 Series B 292 Series C 5,620 Series K (b) 37,648,650 ---------- Total (c) 77,938,643 ========== (a) As described in Note 12, the Series A-1 shares are convertible only if the Company reaches $150 million in annual sales or upon a merger, consolidation, sale of assets or similar transaction. (b) On June 4, 2004 one seventh of the 2,050,393 Series K shares, or 292,913 shares, converted into 6,274,775 of the Company's common stock. On June 4, 2005 and on each anniversary date thereof, through June 4, 2010, 292,913 Series K shares will automatically convert into 6,274,775 shares of the Company's common stock (see Note 12). (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). F-24 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- NOTE 12 - Equity Securities Preferred Stocks The Company's preferred stocks consist of the following: Shares Issued Shares and Liquidation Authorized Outstanding Par Value Preference --- June 30, 2004: Preferred Stocks: *Series A Cumulative Convertible 29,233 7,631 $ 763 $ 763,100 Series A-1 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 1,757,480 17,575 -- ---------- ---------- ---------- ---------- Total preferred 8,496,937 6,902,963 $ 348,042 $5,494,080 ========== ========== ========== ========== * Classes of preferred stock assumed in the ATEC reverse merger. At June 30, 2004, the Company had six authorized series of preferred stock; Series A Cumulative Convertible (par value $.10), Series A-1 Cumulative convertible (par value $.01), Series B Convertible (par value $.10), Series C Convertible (par value $1), Series J Convertible (par value $.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. 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 F-25 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- NOTE 12 - Equity Securities, continued Preferred Stocks, continued Company the right to redeem such shares at a price of $100 per share. The A, B and C shares may be converted into shares of common stock at an exchange rate of five, five and fifty shares, respectively, for each share of common stock or approximately 7,438 shares. The conversion rights of the J, K and A-1 shares are described below. 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 4, 2005 through 2010, for an aggregate of an additional 37,648,650 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, 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 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 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 On May 30, 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 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. F-26 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- NOTE 12 - Equity Securities, continued Stock Options, continued 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, 2004, 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, 2004, the 2000 Plan provides for the issuance of 13,932,721 shares of common stock. As of that date, 9,023,630 options are outstanding under this plan. The following table summarizes the options assumed by Interpharm, Inc. in the ATEC reverse merger and activity for the period May 30, 2003 to June 30, 2004. There were no options issued by Interpharm, Inc. prior to the reverse merger. Number Weighted Average of Options Exercise Price ------------------------------ Options assumed from ATEC in reverse merger transaction - May 30, 2003 7,495,691 $ 1.51 Granted 5,075,000 $ .68 Exercised (25,000) $ 1.25 ----------- Outstanding at June 30, 2003 12,545,691 $ 1.17 Granted 1,415,000 $ 4.10 Exercised (3,477,441) $ 1.04 Forfeited (23,250) $ .94 ----------- Outstanding at June 30, 2004 10,460,000 $ 1.62 =========== F-27 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- NOTE 12 - Equity Securities, continued Stock Options, continued The following table summarizes information concerning outstanding and exercisable stock options as of June 30, 2004: Options Outstanding Options Exercisable -- Weighted Number Average Weighted Number Weighted Outstanding Remaining Average Exercisable Average Range of At Contractual Exercise at Exercise Exercise Prices June 30, 2004 Life Price June 30, 2004 Price -- $0.450 - $0.680 7,608,630 8.39 $0.63 2,555,391 $0.54 $1.625 - $3.970 1,416,370 3.38 $3.50 416,370 $2.38 $4.260 - $6.800 1,435,000 4.94 $5.00 1,020,000 $5.24 ---------- --------- 10,460,000 3,991,761 ========== ========= During the year ended June 30, 2004, 3,477,441 options and 58,446 warrants were exercised generating cash proceeds to the Company of approximately $3,520,000, and resulting in tax deductions approximating $9,900,000 (Note 10). NOTE 13 -

Commitments and Contingencies Employment Agreements On June 1, 2003 the Company entered into employment agreements with 6 executive officers and 7 employees. Additionally, in January, 2004, the Company entered into an employment agreement with its Chief Financial Officer. Each of the agreements is substantially identical and provides for the following significant terms: - employment terms extend through December 31, 2008, termination with or without cause, and upon termination, the employee is entitled to receive only any accrued salary and vacation pay, - confidentiality and non-competition clauses which remain effective following termination of employment, -annual salary ranging from $80,000 through $150,000 ($910,000 in total) for the 7 executive officers and salary ranging from $55,000 through $95,000 ($477,000 in total) for the 7 employees, with increases and bonus payments at the sole discretion of the Board of Directors. The agreements also provide the executive officers and three employees with an automobile allowance. These officers and employees also received an aggregate of 5,245,000 stock options. F-28 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 13 - Commitments and Contingencies, continued Operating Leases The Company's corporate headquarters is located in Commack, New York, where the Company leases 23,175 square feet of space for executive offices from an unrelated party. The lease expires in May, 2005. Rent expense under this operating lease was $186,684 for the year ended June 30, 2004 and $15,557 for the one-month period ended June 30, 2003. The Company is subletting a portion of the facility to three unrelated parties. Rental income of $167,719 and $13,676 was recognized under these agreements for the year ended June 30, 2004 and the one-month period ended June 30, 2003. Legal Proceedings Because Interpharm, Inc. utilizes certain controlled substances, it is subject to routine inspection by the U.S. Drug Enforcement Agency. On May 27, 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. The notice references certain alleged record keeping violations. As of the date of this report, no complaint has been filed by the United States Attorney's Office, and Interpharm, Inc. is in the process of setting up a meeting with the United States Attorney's Office to resolve the matter. The Company is unable to predict the outcome of this claim and, accordingly, no adjustments have been made in the consolidated financial statements. From time to time, the Company is a party to litigation arising in the normal course of its business operations. In the opinion of management, it is not anticipated that the settlement or resolution of any such matters will have a material adverse impact on the Company's financial condition, liquidity or results of operations. NOTE 14 - Economic Dependency Major Customers The Company had the following customer concentrations for the year end ended June 30, 2004, the six month periods ended June 30, 2003 and 2002 and for each of the years ended December 31, 2002 and 2001: Sales - Percent of Revenue ------------------------- Year Ended Six Months Ended Year Ended June 30, June 30, December 31, 2004 2003 2002 2002 2001 -- Customer A ** -- -- -- -- 19% Customer B 29% 37% 45% 44% 20% Customer C * 13% 16% * 22% Customer D * * * * * Customer E 26% * * * * F-29 INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS --- NOTE 14 - Economic Dependency, continued Accounts Receivable ------------------- June 30, 2004 2003 --- Customer A ** $ -- $ -- Customer B 2,760,500 2,202,354 Customer C 172,851 736,022 Customer D 34,280 229,288 Customer E 849,055 461,721 * Sales to customers were less than 10% ** This customer was the minority owner of Interpharm, Inc.'s subsidiary prior to the transfer of interest on June 6, 2003. Major Suppliers The Company purchased materials from three suppliers, during the year ended June 30, 2004, totaling approximately 82%, and two suppliers totaling approximately 60%, 72%, 68% and 65% of the Company's total purchases, during the six month periods ended June 30, 2003 and 2002 and for the years ended December 31, 2002 and 2001, respectively. At June 30, 2004 and 2003 amounts due to these suppliers included in accounts payable, were approximately $2,590,000 and $2,737,000, respectively. NOTE 15 - Quarterly Financial Data (Unaudited) Summarized quarterly financial information consists of the following: Sept. 30, 2003 Dec. 31, 2003 March 31, 2004 June 30, 2004 --- Sales, net $ 6,875,348 $11,706,231 $11,307,974 $11,210,175 Gross profit 1,431,830 2,618,275 2,815,151 2,929,579 Net income 227,439 1,024,097 983,530 887,755 Basic EPS $ .01 $ .05 $ .05 $ .04 =========== =========== =========== =========== Diluted EPS $ .00 $ .01 $ .01 $ .01 =========== =========== =========== =========== --- Sept. 30, 2002 Dec. 31, 2002 March 31, 2003 June 30, 2003 --- Sales, net $5,932,585 $6,636,220 $7,191,002 $7,762,436 Gross profit 1,074,386 1,208,827 1,366,290 1,372,326 Net income 191,693 247,924 480,575 243,070 Basic EPS $ .02 $ .04 $ .08 $ .02 ========== ========== ========== ========== Diluted EPS $ .01 $ .01 $ .01 $ -- ========== ========== ========== ========== NOTE 15 - Quarterly Financial Data (Unaudited), continued 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. F-30