INTERPHARM HOLDINGS INC
Form 10-Q
May 15, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended March 31, 2007

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to

Commission File Number 0-22710

INTERPHARM HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3673965
State or other jurisdiction of corporation or organization)	(I.R.S. Employer Identification Number)
75 Adams Avenue, Hauppauge, New York	11788
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code (631) 952-0214

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

YES x NO o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

YES o NO x

As of the close of business on May 11, 2007, there were 65,813,668 shares of the Registrant's $0.01 par value per share Common Stock outstanding.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS

	March 31, 2007 (Unaudited)	June 30, 2006
CURRENT ASSETS		
Cash	$ 184	$ 1,438
Accounts receivable, net	14,109	14,212
Inventories	12,117	8,706
Prepaid expenses and other current assets	1,564	1,316
Assets held for sale	538	—
Deferred tax assets	83	1,321
Total Current Assets	28,595	26,993
Land, building and equipment, net	32,385	29,069
Deferred tax assets	7,744	4,849
Investment in APR, LLC	1,023	1,023
Other assets	1,168	933
TOTAL ASSETS	$ 70,915	$ 62,867

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2007 (Unaudited)	June 30, 2006
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 2,090	$ 1,686
Accounts payable, accrued expenses and other liabilities	15,027	12,650
Liabilities held for sale	377	—
Deferred revenue	—	3,399
Total Current Liabilities	17,494	17,735
OTHER LIABILITIES		
Long-term debt, less current maturities	14,585	13,952
Contract termination liability	1,330	—
Other liabilities	—	125
Total Other Liabilities	15,915	14,077
TOTAL LIABILITIES	33,409	31,812
COMMITMENTS AND CONTINGENCIES		
Series B-1 Redeemable Convertible Preferred Stock: 15 shares authorized; issued and outstanding - 10 at March 31, 2007 and June 30, 2006; liquidation preference of $10,000	8,155	8,225
Series C-1 Redeemable Convertible Preferred Stock: 10 shares authorized; issued and outstanding - 10 at March 31, 2007; liquidation preference of $10,000	8,352	—
STOCKHOLDERS' EQUITY		
Preferred stocks, 10,000 shares authorized; issued and outstanding - 5,132 and 5,141 at March 31, 2007 and June 30, 2006, respectively; aggregate liquidation preference of $3,588 and $4,291 at March 31, 2007 and June 30, 2006, respectively	51	51
Common stock, $0.01 par value, 150,000 and 65,569 shares authorized and issued, respectively, at March 31, 2007, and 70,000 and 64,537 shares authorized and issued, respectively, at June 30, 2006.	656	645
Additional paid-in capital	28,885	24,196
Stock subscription receivable	—	(90)
Accumulated other comprehensive income	114	98
Accumulated deficit	(8,707)	(2,070)

TOTAL STOCKHOLDERS’ EQUITY		20,999		22,830
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$	70,915	$	62,867

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share data)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Nine Months Ended March 31, 2007	Nine Months Ended March 31, 2006
SALES, Net	$ 19,910	$ 16,110	$ 60,215	$ 46,869
COST OF SALES (including related-party rent expense of $204 and $446 for the three and nine months ended March 31, 2007 and $102 and $306 for the three and nine months ended March 31, 2006, respectively)	13,535	12,111	40,828	33,708
GROSS PROFIT	6,375	3,999	19,387	13,161
OPERATING EXPENSES				
Selling, general and administrative	3,882	3,263	9,675	7,901
Related party rent	36	18	79	54
Research and development	4,711	2,975	13,001	7,006
TOTAL OPERATING EXPENSES	8,629	6,256	22,755	14,961
OPERATING LOSS	(2,254)	(2,257)	(3,368)	(1,800)
OTHER (EXPENSE) INCOME				
Contract termination expense	—	—	(1,655)	—
Interest expense, net	(289)	(170)	(816)	(359)
Asset impairment	(101)	—	(101)	—
Other	46	2	(75)	(5)
TOTAL OTHER EXPENSE	(344)	(168)	(2,647)	(364)
LOSS BEFORE INCOME TAXES	(2,598)	(2,425)	(6,015)	(2,164)
BENEFIT FROM INCOME TAXES	(746)	(926)	(1,668)	(828)
NET LOSS	(1,852)	(1,499)	(4,347)	(1,336)
Series C-1 preferred stock beneficial conversion feature	—	—	1,094	—
Preferred stock dividends	454	98	1,196	181
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (2,306)	$ (1,597)	$ (6,637)	$ (1,517)

EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS				
Basic and diluted loss per share	$ (0.04)	$ (0.05)	$ (0.10)	$ (0.05)
Basic and diluted weighted average shares and equivalent shares outstanding	65,380	32,464	65,052	32,423

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	Preferred Stock		Common Stock		Paid-In	Subscription	Accumulated Other Comprehensive	Accumulated	Stockholders'
	Shares	Amount	Shares	Amount	Capital	Receivable	Income	Deficit	Equity
BALANCE- July 1, 2006	5,141	$ 51	64,537	$ 645	$ 24,196	$ (90)	$ 98	$ (2,070)	$ 22,830
Accrued dividends - Series B-1	—	—	—	—	—	—	—	(206)	(206)
Accrued dividends - Series C-1	—	—	—	—	—	—	—	(206)	(206)
Series C-1 Preferred beneficial conversion feature	—	—	—	—	1,094	—	—	(1,094)	—
Series B-1 dividends paid with common stock	—	—	299	3	488	—	—	(413)	78
Series C-1 dividends paid with common stock			122	2	245	—	—	(247)	—
Dividends declared - Series A-1	—	—		—	—	—	—	(124)	(124)
Shares issued for options exercised	—	—	602	6	387	—	—	—	393
Conversion of Series A preferred stock	(7)	—	7	—	—	—	—	—	—
Conversion of Series B preferred stock	(2)	—	2	—	—	—	—	—	—
Fair value of warrants issued	—	—	—	—	1,641	—	—	—	1,641
Stock based compensation and modification expense	—	—	—	—	834	—	—	—	834
Collections on stock subscription receivable	—	—	—	—	—	90	—	—	90
Change in fair value of interest rate swap	—	—	—	—	—	—	16	—	16
Net loss	—	—	—	—	—	—	—	(4,347)	(4,347)

BALANCE - March 31, 2007	5,132	$	51	65,569	$	656	$	28,885	$	—	$	114	$	(8,707)	$	20,999

See Notes To Condensed Consolidated Financial Statements.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)
(In thousands)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Nine Months Ended March 31, 2007	Nine Months Ended March 31, 2006
NET LOSS	$ (1,852)	$ (1,499)	$ (4,347)	$ (1,336)
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in fair value of interest rate swap	31	(12)	16	(12)
TOTAL COMPREHENSIVE LOSS	$ (1,821)	$ (1,511)	$ (4,331)	$ (1,348)

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Nine Months Ended March 31, 2007	Nine Months Ended March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (4,347)	$ (1,336)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Bad debt expense	55	11
Asset impairment	101	—
Accreted non-cash interest expense	54	—
Depreciation and amortization	1,671	1,062
Stock based compensation expense	834	1,004
Contract termination expense	1,655	—
Deferred tax benefit	(1,657)	(800)
Loss on disposal of fixed assets	75	5
Changes in operating assets and liabilities:		
Accounts receivable	49	(2,258)
Inventories	(3,412)	(346)
Prepaid expenses and other current assets	(272)	(635)
Accounts payable, accrued expenses and other liabilities	1,743	6,803
Deferred revenue	(3,399)	2,296
Total adjustments	(2,503)	7,142
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(6,850)	5,806
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of building and equipment, net	(4,992)	(6,621)
Proceeds from sale of equipment	129	—
Deposits and other long-term assets	(706)	(604)
NET CASH USED IN INVESTING ACTIVITIES	(5,569)	(7,225)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of Series C-1 preferred stock and warrants, net	9,993	—
Expenditures relating to sale of Series B-1 preferred stock and warrants	(70)	—
Proceeds from options exercised	393	—
Proceeds from long-term debt	2,240	8,654
Payment of Series A-1 dividends	(124)	(165)
Payment of deferred financing costs	—	(270)
Collections on stock subscription receivable	90	21
Repayment of bank line of credit, net	—	(6,728)
Repayments of long-term debt	(1,357)	(376)
NET CASH PROVIDED BY FINANCING ACTIVITIES	11,165	1,136
NET DECREASE IN CASH	(1,254)	(283)
CASH - Beginning	1,438	537

CASH - Ending	$	184	$	254

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(UNAUDITED)
(In thousands)

	Nine Months Ended March 31,			
	2007		2006	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the periods for:				
Interest	$	934	$	273
Income taxes	$	—	$	15
Non-Cash Investing or Financing Transactions:				
Issuance of common stock in exchange for subscription receivable	$	—	$	133
Acquisition of machinery and equipment in exchange for capital lease payable	$	156	$	128
Reclassification of equipment deposits to building and equipment	$	410	$	771
Series B-1 dividends paid with common stock	$	491	$	—
Series C-1 dividends paid with common stock	$	247	$	—
Accrual of Series B-1 dividends	$	206	$	—
Accrual of Series C-1 dividends	$	206	$	—
Change in fair value of interest rate swap	$	16	$	12
Repayment of debt with proceeds from new credit facility	$	—	$	20,445
Declaration of preferred dividends	$	—	$	124

See Notes To Condensed Consolidated Financial Statements.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1 - Condensed Consolidated Financial Statements

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

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such interim statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The operating results for the three and nine months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended June 30, 2006.

NOTE 2 - Summary of Significant Accounting Policies

Nature of Business

Interpharm Holdings, Inc., through its wholly-owned subsidiary, Interpharm, Inc. ("Interpharm, Inc."), is in the business of developing, manufacturing and marketing generic prescription strength and over-the-counter pharmaceutical products for wholesale distribution throughout the United States.

Revenue Recognition

The Company recognizes product sales revenue upon the shipment of product, when estimated provisions for chargebacks and other sales allowances are reasonably determinable, and when collectibility is reasonably assured. Accruals for these provisions are presented in the consolidated financial statements as reductions to revenues.

In addition, the Company is party to supply agreements with certain pharmaceutical companies under which, in addition to the selling price of the product, the Company receives payments based on sales or profits associated with these products realized by its customer. The Company recognizes revenue related to the initial selling price upon shipment of the products as the selling price is fixed and determinable and no right of return exists. The additional revenue component of these agreements is recognized by the Company at the time its customers record their sales and is based on pre-defined formulas contained in the agreements. Receivables related to this revenue of $816 and $620 at March 31, 2007 and June 30, 2006, respectively, are included in "Accounts receivable, net" in the accompanying Condensed Consolidated Balance Sheets.

Earnings (Loss) Per Share

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

Emerging Issues Task Force ("EITF") Issue No. 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share," during the fiscal year ended June 30, 2006, in periods when there was net income and Series K preferred stock was outstanding, the Company used the Two-Class Method to calculate the effect of the participating Series K on the calculation of basic EPS and the if-converted method was used to calculate the effect of the participating Series K on diluted EPS. In periods when there was a net loss, the effect of the participating Series K was excluded from both basic and diluted EPS. Additionally, in May 2006, the Series K preferred stock was converted into the Company's common stock; therefore the use of the Two-Class Method is not required for the three and nine months ended March 31, 2007.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2 - 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, reserve for chargebacks, deferred revenue, fair values of stock based compensation awards and inventory overhead costing estimates.

Stock Based Compensation

Effective July 1, 2005, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), “Share-Based Payment,” (“SFAS No. 123(R)”), using the modified-prospective-transition method. As a result, the Company’s net loss before taxes for the three months ended March 31, 2007 and its net income before taxes for the three month period ended March 31, 2006 is lower by $248 and $588, respectively, and $834 and $1,004 for the nine months ended March 31, 2007 and 2006, respectively, than if it had continued to account for share-based compensation under Accounting Principles Board (“APB”) opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”).

Sales Incentives

In accordance with the terms and conditions of an agreement entered into during the fiscal year ended June 30, 2006, the Company has offered a sales incentive to one of its customers in the form of an incentive volume price adjustment. The Company accounts for sales incentives in accordance with EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Products)" (“EITF 01-9”). The terms of this volume based sales incentive required the customer to purchase a minimum quantity of the Company's products during a specified period of time. The incentive offered was based upon a fixed dollar amount per unit sold to the customer. The Company made an estimate of the ultimate amount of the incentive the customer would earn based upon past history with the customer and other facts and circumstances. The Company had the ability to estimate this volume incentive price adjustment, as there did not exist a relatively long period of time for the particular adjustment to be earned. Any change in the estimated amount of the volume incentive was recognized immediately using a cumulative catch-up adjustment. In accordance with EITF 01-9, the Company recorded the provision for this sales incentive when the related revenue is recognized. The Company's sales incentive liability may prove to be inaccurate, in which case the Company may have understated or overstated the provision required for these arrangements. Therefore, although the Company makes its best estimate of its sales incentive liability, many factors, including significant unanticipated changes in the purchasing volume of its customer, could have significant impact on the Company's liability for sales incentives and the Company's reported operating results. The specific terms of this agreement which related to sales incentives expired in October 2006. For the three and nine months ended March 31, 2007, the Company recognized $0 and $3,399 sales incentive revenue related to this agreement.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, the Company accounted for certain long lived assets and related liabilities that will be disposed or that met all of the “held for sale” criteria, as a disposal group which has been classified as “held for sale”

and presented separately in the Current Assets and Current Liabilities sections, respectively, of the accompanying Condensed Consolidated Balance Sheet as of March 31, 2007. The major classes of assets and liabilities classified as “held for sale” are separately discussed in Note 17. The “held for sale” classification required having appropriate approvals by the Company's management and Board of Directors, as applicable, and meeting other criteria.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2 - Summary of Significant Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the audited condensed consolidated financial statements for the prior period in order to have them conform to the current period's classifications. These reclassifications have no effect on previously reported net income.

The Company reclassified certain components of stockholders' equity section to reflect the elimination of deferred compensation arising from unvested share-based compensation pursuant to the requirements of Staff Accounting Bulletin No. 107, regarding Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment." This deferred compensation was previously recorded as an increase to additional paid-in capital with a corresponding reduction to stockholders' equity for such deferred compensation. This reclassification has no effect on net income or total stockholders' equity as previously reported. The Company will record an increase to additional paid-in capital as the share-based payments vest.

Recently Issued Accounting Pronouncements

New Accounting Pronouncements

In November 2006, The Emerging Issues Task Force ("EITF") reached a final consensus in EITF Issue 06-6 "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments" ("EITF 06-6"). EITF 06-6 addresses the modification of a convertible debt instrument that changes the fair value of an embedded conversion option and the subsequent recognition of interest expense for the associated debt instrument when the modification does not result in a debt extinguishment pursuant to EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments,". The consensus should be applied to modifications or exchanges of debt instruments occurring in interim or annual periods beginning after November 29, 2006. The adoption of EITF 06-6 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In November 2006, The Financial Accounting Standards Board ("FASB") ratified EITF Issue No. 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities" ("EITF 06-7"). At the time of issuance, an embedded conversion option in a convertible debt instrument may be required to be bifurcated from the debt instrument and accounted for separately by the issuer as a derivative under of Financial Accounting Standards ("FAS") 133, based on the application of EITF 00-19. Subsequent to the issuance of the convertible debt, facts may change and cause the embedded conversion option to no longer meet the conditions for separate accounting as a derivative instrument, such as when the bifurcated instrument meets the conditions of Issue 00-19 to be classified in stockholders' equity. Under EITF 06-7, when an embedded conversion option previously accounted for as a derivative under FAS 133 no longer meets the bifurcation criteria under that standard, an issuer shall disclose a description of the principal changes causing the embedded conversion option to no longer require bifurcation under FAS 133 and the amount of the liability for the conversion option reclassified to stockholders' equity. EITF 06-7 should be applied to all previously bifurcated conversion options in convertible debt instruments that no longer meet the bifurcation criteria in FAS 133 in interim or annual periods beginning after December 15, 2006, regardless of whether the debt instrument was entered into prior or subsequent to the effective date of EITF 06-7. Earlier application of EITF 06-7 is permitted in periods for which financial statements have not yet been issued. The adoption of EITF 06-7 did not have a material effect on the Company's consolidated financial

position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 clarifies certain issues relating to embedded derivatives and beneficial interests in securitized financial assets. The provisions of SFAS 155 are effective for all financial instruments acquired or issued after fiscal years beginning after September 15, 2006. The Company is currently assessing the impact that the adoption of SFAS 155 will have on its financial position and results of operations.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2 - Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements, continued

New Accounting Pronouncements, continued

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", ("FIN 48"). This interpretation clarified the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No.109"). Specifically, FIN 48 clarifies the application of SFAS No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods of income taxes, as well as the required disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact that the adoption of FIN 48 will have on its financial position and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets" ("SFAS 156"), which amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 permits the choice of the amortization method or the fair value measurement method, with changes in fair value recorded in income, for the subsequent measurement for each class of separately recognized servicing assets and servicing liabilities. The statement is effective for years beginning after September 15, 2006, with earlier adoption permitted. The Company is currently evaluating the effect that adopting this statement will have on the Company's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It codifies the definitions of fair value included in other authoritative literature; clarifies and, in some cases, expands on the guidance for implementing fair value measurements; and increases the level of disclosure required for fair value measurements. Although SFAS 157 applies to (and amends) the provisions of existing authoritative literature, it does not, of itself, require any new fair value measurements, nor does it establish valuation standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement will be effective for the Company's fiscal year beginning July 2008. The Company will evaluate the impact of adopting SFAS 157 but does not expect that it will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 became effective in fiscal 2007. Adoption of SAB 108 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2006, the FASB issued FASB Staff Position ("FSP") EITF 00-19-2 "Accounting for Registration Payment Arrangements" ("FSP EITF 00-19-2") which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and

measured in accordance with SFAS No. 5, “Accounting for Contingencies.” Adoption of FSP EITF 00-19-02 is required for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FSP EITF 00-19-2 to have a material impact on its consolidated financial position, results of operations or cash flows.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2 - Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements, continued

New Accounting Pronouncements, continued

In February 2007, the FASB issued Statement ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115" ("SFAS 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material impact on its consolidated financial statements.

NOTE 3 - Accounts Receivable

Accounts receivable are comprised of amounts owed to the Company through the sales of its products throughout the United States. These accounts receivable are presented net of allowances for doubtful accounts, sales returns and customer chargebacks. Allowances for doubtful accounts were approximately $53 at March 31, 2007 and $101 at June 30, 2006. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates. Allowances for customer chargebacks were $3,310 and $2,315 at March 31, 2007 and June 30, 2006, respectively. The Company sells some of its products indirectly to various government agencies referred to below as "indirect customers." The Company enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which to actually purchase the products at these agreed-upon prices. The Company will provide credit to the selected wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler's invoice price if the price sold to the indirect customer is lower than the direct price to the wholesaler. This credit is called a chargeback. The provision for chargebacks is based on expected sell-through levels by the Company's wholesale customers to the indirect customers, and estimated wholesaler inventory levels. As sales to the large wholesale customers increase, the reserve for chargebacks will also generally increase. However, the size of the increase depends on the product mix. The Company continually monitors the reserve for chargebacks and makes adjustments to the reserve as deemed necessary. Actual chargebacks may differ from estimated reserves.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 - Accounts Receivable, continued

The changes in the allowance for customer chargebacks, discounts and other credits that reduced gross revenue for nine months ended March 31, 2007 and 2006 is as follows:

	Nine Months Ended March 31,	
	2007	2006
Reserve balance - beginning	$ 2,315	$ 425
Actual chargebacks, discounts and other credits taken in the current period (a)	(8,359)	(3,620)
Current provision related to current period sales	9,354	5,105
Reserve balance - ending	$ 3,310	$ 1,910

(a) Actual chargebacks discounts and other credits are determined based upon the customer's application of amounts taken against the accounts receivable balance.

NOTE 4 - Inventories

Inventories consist of the following:

	March 31, 2007 (Unaudited)	June 30, 2006
Finished goods	$ 2,124	$ 1,781
Work in process	5,618	3,685
Raw materials	3,952	2,928
Packaging materials	423	312
Total	$ 12,117	$ 8,706

NOTE 5 - Land, Building and Equipment

Land, building and equipment consist of the following:

	March 31, 2007 (Unaudited)	June 30, 2006	Estimated Useful Lives
Land	$ 4,924	$ 4,924	—
Building	12,460	12,460	39 Years
Machinery and equipment	15,560	12,657	5-7 Years
Computer equipment	1,228	151	5 Years
Construction in Progress	243	587	—

Furniture and fixtures		765		660	5 Years
Leasehold improvements		3,913		3,206	5-15 Years
		39,093		34,645	
Less: accumulated depreciation and amortization		6,708		5,576	
Land, Building and Equipment, net	$	32,385	$	29,069	

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 5 - Land, Building and Equipment, continued

Depreciation and amortization expense for the three and nine months ended March 31, 2007, was approximately $542 and $1,571, respectively, and for the three and nine months ended March 31, 2006, was approximately $370 and $1,062, respectively.

NOTE 6 - Accounts Payable, Accrued Expenses and Other Current Liabilities

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

	March 31, 2007 (Unaudited)	June 30, 2006
Inventory purchases	$ 7,141	$ 5,734
Research and development expenses	1,978	2,068
Other	5,908	4,848
Total	$ 15,027	$ 12,650

NOTE 7 - Debt

Long-term Debt

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

	March 31, 2007 (Unaudited)	June 30, 2006
Revolving credit facility	$ —	$ —
Real estate term loan	11,133	11,734
Machinery and equipment term loans	5,386	3,833
Capital leases	197	72
	16,716	15,639
Less: amount representing interest on capital leases	41	1
Total long-term debt	16,675	15,638
Less: current maturities	2,090	1,686
Long-term debt, less current maturities	$ 14,585	$ 13,952

During February, 2006, the Company entered into a new four-year financing arrangement with Wells Fargo Business Credit (“WFBC”). This financing agreement provided an original maximum credit facility of $41,500 comprised of:

- $22,500 revolving credit facility (the “facility”)

- $12,000 real estate term loan
- $ 3,500 machinery and equipment ("M&E") term loan
- $ 3,500 additional / future capital expenditure facility

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 7 - Debt, continued

The funds made available through this facility paid down, in its entirety, the $20.45 million owed on the previous credit facility. The new revolving credit facility borrowing base is calculated as (i) 85% of the Company's eligible accounts receivable plus the lesser of 50% of cost or 85% of the net orderly liquidation value of its eligible inventory. The advances pertaining to inventory are capped at the lesser of 100% of the advance from accounts receivable or $9,000. The $12,000 loan for the real estate in Yaphank, NY is payable in equal monthly installments of $67 plus interest through February 2010 at which time the remaining principal balance is due. The $3,500 M&E loan is payable in equal monthly installments of $58 plus interest through February 2010 at which time the remaining principal balance is due. With respect to additional capital expenditures, the Company is permitted to borrow 90% of the cost of new equipment purchased to a maximum of $3,500 in borrowings amortized over 60 months. As of March 31, 2007, there was approximately $690 available for additional capital expenditure borrowings.

Under the terms of the WFBC agreement, three stockholders, all related to the Company's Chairman of the Board of Directors, one of whom is our Chief Operating Officer, were required to provide limited personal guarantees, as well as pledge securities with a minimum aggregate value of $7,500 as security for a portion of the $22,500 credit facility. The Company was required to raise a minimum of $7,000 through the sale of equity or subordinated debt by June 30, 2006. The shareholder's pledges of marketable securities would be reduced by WFBC either upon the Company raising capital, net of expenses in excess of $5,000 or achieving certain milestones. As a result of the sale of $10,000 of Series B-1 redeemable convertible preferred stock in May 2006, the limited personal guarantees were reduced by $3,670. The sale of the $10,000 Series C-1 redeemable convertible preferred stock in September 2006, resulted in elimination of the balance of the personal pledges of marketable securities of $3,830.

The revolving credit facility and term loans will bear interest at a rate of the prime rate less 0.5% or, at the Company's option, LIBOR plus 250 basis points. At March 31, 2007, the interest rate on this debt was 7.75%. Pursuant to the requirements of the WFBC agreement, the Company put in place a lock-box arrangement, which will incur a fee of 25 basis points per annum on any unused amounts of this credit facility.

The WFBC credit facility is collateralized by substantially all of the Company's assets. In addition, the Company is required to comply with certain financial covenants and as of March 31, 2007, was not in compliance with one of these financial covenants which required that unfinanced capital expenditures not exceed $2,500. Such expenditures were approximately $3,500 for the nine month period ended March 31, 2007. The Company received a waiver from WFBC of the financial covenant non-compliance and entered into an amendment to the WFBC loan documents to accommodate the Company's unfinanced capital expenditures.

With respect to the real estate term loan and the $3,500 M&E loan, the Company entered into interest rate swap contracts (the "swaps"), whereby the Company pays a fixed rate of 7.56% and 8.00% per annum, respectively. The swaps contracts mature in 2010. The swaps are a cash flow hedge (i.e. a hedge against interest rates increasing). As all of the critical terms of the swaps and loans match, they are structured for short-cut accounting under SFAS No. 133, "Accounting For Derivative Instruments and Hedging Activities" and by definition, there is no hedge ineffectiveness or a need to reassess effectiveness. Fair value of the interest rate swaps at March 31, 2007, was approximately $114 and is included in Other assets.

NOTE 8- Income Taxes

At March 31, 2007 the Company has remaining Federal net operating losses (“NOLs”) of $23,676 and State NOLs of $22,789 available through 2027. Pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership, utilization of these NOLs is limited. As of March 31, 2007, the Company has determined that it is more likely than not, that the Company will utilize all of the Federal NOLs in the future. Additionally, as of March 31, 2007, as a result of changes in New York State tax law, the benefit of the future utilization of State NOLs has been reduced.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 8- Income Taxes, continued

In calculating its tax provision for the nine month periods ended March 31, 2007 and 2006, the Company applied aggregate effective tax rates of approximately 28% and 38%, respectively, thereby creating a $1,668 and $828 income tax benefit, respectively, and adjusted its deferred tax assets by like amounts. The decrease in effective tax rates is the result of permanent tax differences relating to Incentive Stock Options and changes in New York State tax law.

NOTE 9- Earnings (Loss) Per Share

The calculations of basic and diluted EPS are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
Numerator:				
Net loss	$ (1,852)	$ (1,499)	$ (4,347)	$ (1,336)
Less: Preferred stock dividends				
Series A-1	(42)	(98)	(124)	(181)
Series B-1	(206)	—	(619)	—
Series C-1	(206)	—	(453)	—
Less: Series C-1 beneficial conversion feature	—	—	(1,094)	—
Net loss attributable to common stock stockholders	$ (2,306)	$ (1,597)	$ (6,637)	$ (1,517)
Denominator:				
Denominator for basic and diluted EPS weighted average shares outstanding	65,380	32,464	65,052	32,423
Basic and diluted loss per share:	$ (0.04)	$ (0.05)	$ (0.10)	$ (0.05)

Stock options, warrants and convertible preferred stock, equivalent to 30,245 and 12,813 shares of the Company's common stock, were not included in the computation of diluted earnings per share for the three and nine months ended March 31, 2007 and 2006, respectively, as their inclusion would be antidilutive.

As of March 31, 2007, 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	65,569
Stock options outstanding	12,636
Warrants outstanding	4,564
Common stock issuable upon conversion of preferred stocks:	
Series C	6
Series A-1 (maximum contingent conversion) (a)	4,855

Series B-1	6,520
Series C-1	6,520
Total (b)	100,670

(a) The Series A-1 shares are convertible only if the Company reaches $150 million in annual sales or upon a merger, consolidation, sale of assets or similar transaction.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 9- Earnings (Loss) Per Share, continued

(b) 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 November 16, 2016 (the end of the current vesting and conversion periods).

NOTE 10 - Series B-1 Redeemable Convertible Preferred Stock

In May 2006, the Company entered into a Securities Purchase Agreement (the "Agreement") with Tullis-Dickerson Capital Focus III, L.P. ("Tullis"). Under the Agreement, the Company agreed to issue and sell to Tullis, and Tullis agreed to purchase from the Company, for a purchase price of $10,000 (net proceeds of $9,858) an aggregate of 10 shares of a newly designated series of the Company's preferred stock ("B-1"), together with 2,282 warrants to purchase shares of common stock of the Company with an exercise price of $1.639 per share. The warrants have a five year term. The Series B-1 Stock and warrants sold to Tullis are convertible and/or exercisable into a total of 8,802 shares of common stock. The B-1 shares are convertible into common shares at a conversion price of $1.5338, and have an annual dividend rate of 8.25%, payable quarterly, which can be paid, at the Company's option, in cash or the Company's common stock. In addition, the B-1 shareholders have the right to require the Company to redeem all or a portion of the B-1 shares upon the occurrence of certain triggering events, as defined, at a price per preferred share to be calculated on the day immediately preceding the date of a triggering event. Through March 31, 2007, the Company issued 299 shares of common stock as payment of $491 of previously accrued dividends. At March 31, 2007, the Company had accrued $206 of Series B-1 dividends, which was paid in April 2007 through the issuance of 122 shares of the Company's common stock.

With respect to the Company's accounting for the preferred stock, EITF Topic D-98, paragraph 4, states that Rule 5-02.28 of Regulation S-X requires securities with redemption features that are not solely within the control of the issuer to be recorded outside of permanent equity. As described above, the terms of the Preferred Stock include certain redemption features that may be triggered by events that are not solely within the control of the Company, such as a potential default with respect to any indebtedness, including borrowings under the WFBC financing arrangement. Accordingly, the Company has classified the B-1 shares as temporary equity and the value ascribed to the B-1 shares upon initial issuance in May 2006 was the amount received in the transaction less the relative fair value ascribed to the warrants and direct costs associated with the transaction. The Company allocated $1,704 of the gross proceeds of the sale of B-1 shares to the warrants based on estimated fair value. In accordance with EITF Issue No. 00-27 "Application of EITF Issue No. 98-5 to Certain Convertible Instruments," ("EITF 00-27") the Company recorded a non-cash charge of $1,418 to accumulated deficit during the quarter ended June 30, 2006. The non-cash charge measures the difference between the relative fair value of the B-1 shares and the fair market value of the Company's common stock issuable pursuant to the conversion terms on the date of issuance. The Company is not currently, and the Company made an assessment that it is not probable that it will be, in default on its WFBC credit facility (the only redemption feature outside of its control) nor does it plan to redeem the Series B-1 preferred stock. As such, the Company believes it is not probable that the Series B-1 preferred stock will become redeemable.

In addition, in May 2006, in connection with the sale of the B-1 shares the Company entered into a Registration Rights Agreement, as amended, with Tullis. Under the terms of this Registration Rights Agreement the Company is subject to penalties (a) if, within 60 days after a request to do so is made by the holders of such preferred stock, the Company does not timely file with the Securities and Exchange Commission a registration statement covering the resale of shares of its common stock issuable to such holders upon conversion of the preferred stock, (b) if a registration statement is filed, such registration statement is not declared effective within 180 days after the request is

made or (c) if after such a registration is declared effective, after certain grace periods the holders are unable to make sales of its common stock because of a failure to keep the registration statement effective or because of a suspension or delisting of its common stock from the American Stock Exchange or other principal exchange on which its common stock is traded. The penalties will accrue on a daily basis so long as the Company is in default of the Registration Rights Agreement. The maximum amount of a registration delay penalty as defined in the Registration Rights Agreement is 18% of the aggregate purchase price of Tullis' registrable securities included in the related registration statement. Unpaid registration delay penalties shall accrue interest at the rate of 1.5% per month until paid in full. If the Company fails to get a registration statement effective penalties shall accrue at an amount equal to 1.67% per month of the aggregate purchase price of Tullis' registrable securities included in the related registration statement. If the effectiveness failure continues for more than 180 days the penalty rate shall increase to 3.33%. In addition, if the Company fails to maintain the effectiveness of a registration statement, penalties shall accrue at a rate of 3.33% per month of the aggregate purchase price of the registrable securities included in the related registration. The Company is also subject to penalties if there is a failure to timely deliver to a holder (or credit the holder's balance with Depository Trust Company if the common stock is to be held in street name) a certificate for shares of our common stock if the holder elects to convert its preferred stock into common stock. Therefore, upon the occurrence of one or more of the foregoing events the Company's business and financial condition could be materially adversely affected and the market price of its common stock would likely decline.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 10 - Series B-1 Redeemable Convertible Preferred Stock, continued

The Company's Series B-1 redeemable convertible preferred stock is summarized as follows at March 31, 2007:

Shares Authorized	Shares Issued And Outstanding	Par Value Per Share	Liquidation Preference
15	10	$100	$10,000

NOTE 11 - Series C-1 Redeemable Convertible Preferred Stock

On September 11, 2006, the Company entered into a Securities Purchase Agreement (the "C-1 Agreement") with Aisling Capital, L.P. (the "Buyer"). Under the C-1 Agreement, the Company agreed to issue and sell to the Buyer, and the Buyer agreed to purchase from the Company, for a purchase price of $10,000 (net proceeds of $9,993) an aggregate of 10 shares of a newly designated series of the Company's preferred stock ("C-1"), together with 2,282 warrants to purchase shares of common stock of the Company with an exercise price of $1.639 per share. The warrants have a five year term. The Series C-1 Stock and warrants sold to the Buyer are convertible and/or exercisable into a total of 8,802 shares of common stock. The C-1 shares are convertible into common shares at a conversion price of $1.5338, and have an annual dividend rate of 8.25%, payable quarterly, which can be paid, at the Company's option, in cash or the Company's common stock. In addition, the C-1 shareholders have the right to require the Company to redeem all or a portion of the C-1 shares upon the occurrence of certain triggering events, as defined, at a price per preferred share to be calculated on the day immediately preceding the date of a triggering event. Through March 31, 2007, the Company issued 122 shares of common stock as payment of $247 of previously accrued dividends. At March 31, 2007, the Company had accrued $206 of Series C-1 dividends, which was paid in April 2007 through the issuance of 122 shares of the Company's common stock.

With respect to the Company's accounting for the preferred stock, EITF Topic D-98, paragraph 4, states that Rule 5-02.28 of Regulation S-X requires securities with redemption features that are not solely within the control of the issuer to be recorded outside of permanent equity. As described above, the terms of the Preferred Stock include certain redemption features that may be triggered by events that are not solely within the control of the Company, such as a potential default with respect to any indebtedness, including borrowings under the WFBC financing arrangement. Accordingly, the Company has classified the C-1 shares as temporary equity and the value ascribed to the C-1 shares upon initial issuance in September 2006 was the amount received in the transaction less the relative fair value ascribed to the warrants and direct costs associated with the transaction. The Company allocated $1,641of the gross proceeds of the sale of C-1 shares to the warrants based on estimated fair value. In accordance with EITF Issue No. 00-27 "Application of EITF Issue No. 98-5 to Certain Convertible Instruments," ("EITF 00-27") the Company recorded a non-cash charge of $1,094 to Accumulated deficit during the quarter ended September 30, 2006. The non-cash charge measures the difference between the relative fair value of the C-1 shares and the fair market value of the Company's common stock issuable pursuant to the conversion terms on the date of issuance. The Company is not currently, and the Company made an assessment that it is not probable that it will be, in default on its WFBC credit facility (the only redemption feature outside of its control) nor does it plan to redeem the Series C-1 preferred stock. As such the Company believes it is not probable that the Series C-1 preferred stock will become redeemable.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 11 - Series C-1 Redeemable Convertible Preferred Stock, continued

In addition, on September 11, 2006, in connection with the sale of the C-1 shares the Company entered into a Registration Rights Agreement, as amended, with the Buyer. Under the terms of this Registration Rights Agreement the Company is subject to penalties (a) if, within 60 days after a request to do so is made by the holders of such preferred stock, the Company does not timely file with the Securities and Exchange Commission a registration statement covering the resale of shares of its common stock issuable to such holders upon conversion of the preferred stock, (b) if a registration statement is filed, such registration statement is not declared effective within 180 days after the request is made or (c) if after such a registration is declared effective, after certain grace periods the holders are unable to make sales of its common stock because of a failure to keep the registration statement effective or because of a suspension or delisting of its common stock from the American Stock Exchange or other principal exchange on which its common stock is traded. The penalties will accrue on a daily basis so long as the Company is in default of the Registration Rights Agreement. The maximum amount of a registration delay penalty as defined in the Registration Rights Agreement is 18% of the aggregate purchase price of the Buyers registrable securities included in the related registration statement. Unpaid registration delay penalties shall accrue interest at the rate of 1.5% per month until paid in full. If the Company fails to get a registration statement effective penalties shall accrue at an amount equal to 1.67% per month of the aggregate purchase price of the Buyers registrable securities included in the related registration statement. If the effectiveness failure continues for more than 180 days the penalty rate shall increase to 3.33%. In addition, if the Company fails to maintain the effectiveness of a registration statement, penalties shall accrue at a rate of 3.33% per month of the aggregate purchase price of the registrable securities included in the related registration. The Company is also subject to penalties if there is a failure to timely deliver to a holder (or credit the holder’s balance with Depository Trust Company if the common stock is to be held in street name) a certificate for shares of our common stock if the holder elects to convert its preferred stock into common stock. Therefore, upon the occurrence of one or more of the foregoing events the Company’s business and financial condition could be materially adversely affected and the market price of its common stock would likely decline.

The Company’s Series C-1 redeemable convertible preferred stock is summarized as follows at March 31, 2007:

Shares Authorized	Shares Issued And Outstanding	Par Value Per Share	Liquidation Preference
10	10	$100	$10,000

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 12 - Equity Securities

Preferred Stocks

On July 18, 2006, the Company filed an amendment to its Articles of Incorporation which had the effect of (i) increasing the Company's authorized common stock to 150,000; (ii) automatically converting all outstanding shares of the Company's Series A preferred stock ("Series A") into two shares of common stock or an aggregate of 7 common shares. A Series A shareholder elected to have his 3 shares canceled. Accordingly, no shares of the Company's common stock were issued to him as part of this conversion; (iii) eliminating the Series A from the Articles of Incorporation; (iv) automatically converting each of the outstanding shares of the Company's Series B into one share of common stock, thus issuing 2 common shares; and (v) eliminating the Series B convertible preferred stock ("Series B") from the Articles of Incorporation. These amendments were approved by written consent of a majority of the Company's outstanding common stock and Series A and by the holder of all of the outstanding Series B shares.

During the quarter ended September 30, 2006, 64 shares of the Company's common stock were issued in payment of Series B-1 dividends of $78 earned through June 30, 2006.

During the quarter ended December 31, 2006, the Company issued 141 and 28 shares of the Company's common stock to the Series B-1 and C-1 holders, respectively, for dividends earned for the quarter ended September 30, 2006 of $206 and $41 of Series B-1 dividends and Series C-1 dividends, respectively.

During the quarter ended December 31, 2006, the Company paid to the holders of Series A-1 preferred stock $124 of declared dividends which covered the period January 1, 2006 through September 30, 2006. As of March 31, 2007, the Company's Board of Directors had not declared any dividend on the Series A-1 shares for the period October 1, 2006 through March 31, 2007. Such undeclared dividends amounted to $82.

During the quarter ended March 31, 2007, the Company issued 94 shares of the Company's common stock to each of the Series B-1 and C-1 stockholders, respectively, for dividends earned for the quarter ended December 31, 2006 of $206 for each of the Series B-1 and Series C-1 stockholders, respectively.

At March 31, 2007, the Company had accrued approximately $206 and $206 of Series B-1 and Series C-1 dividends, respectively, which were paid in April 2007 through the issuance of 122 shares of the Company's common stock to each of the Series B-1 and C-1 stockholders, respectively.

Common Stock

During the nine months ended March 31, 2007, the Company issued shares of its common stock as follows:

- 602 shares, resulting in $393 proceeds, in connection with exercises of options to purchase the Company's common stock;

- 299 and 122 shares were issued to Series B-1 and C-1 preferred stock shareholders, respectively, in settlement of dividends earned through December 31, 2006;

- 7 and 2 shares were issued to Series A and B shareholders, respectively, in connection with the conversion of Series A and B resulting from the July 18, 2006, amendment to the Company's Article of Incorporation.

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INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 12 - Equity Securities, continued

Stock Options and Appreciation Rights

As of March 31, 2007 and during the nine month period ended March 31, 2007:

- the Company recognized approximately $24 as an expense in connection with 100 previously issued stock appreciation rights ("SARs"). The SARs must be exercised between July 1, 2008 and December 31, 2008. The SARs are recorded at fair value and are marked to market at each reporting period. As of March 31, 2007, the total liability related to the SARs is $83;

- total unrecognized compensation cost related to stock options granted was $2,083. The unrecognized stock option compensation cost is expected to be recognized over a weighted-average period of approximately 2.56 years;

- total options outstanding and total vested options outstanding to purchase the Company's common stock as of March 31, 2007, amounted to 12,636 and 9,516, respectively;

- 162 options to purchase the Company's common stock were issued to members of the Company's Board of Directors at the market price on the date of the grant and had vesting periods ranging from immediate to one year from the date of issuance;

- in connection with separation agreements involving two employees, the Company extended the exercise period of 155 options, 10 of which were exercised prior to December 31, 2006; 90 were forfeited as of December 31, 2006, the balance of 55 has been extended to September 20, 2008. As a result of these transactions, the Company recognized $12 expense during the quarter ended December 31, 2006.

- 1,243 options to purchase the Company's common stock were issued to employees of the Company at the market price on the date of the grant and vest over 3.28 years from the date of issuance. Of this amount, 445 were performanced based options.

The Company disclosed in its 10-Q for the quarter ended September 30, 2006, that on October 26, 2006, it granted 1,474 stock options to certain employees. After conferring with independent counsel, it was determined that these stock option grants were not finalized and effectuated under the terms of the Company's stock option plan pursuant to which the options were to be granted. Therefore, the Company determined that these stock options were not actually granted. Other than a subsequent event disclosure, there had been no accounting recognition given to the options at September 30, 2006. As a result, no adjustments to the Company's financial statements are required.

NOTE 13 - 401k Plan

In 2006, the Company initiated a pre-tax savings plan covering substantially all employees, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may contribute a portion of their pre-tax salary, subject to certain limitations. The Company contributes and matches 100% of the employee pre-tax contributions, up to 3% of the employee's compensation plus 50% of pre-tax contributions that exceed 3 % of compensation, but not to exceed 5% of compensation. The Company may also make profit-sharing contributions in its discretion which would be allocated among all eligible employees, whether or not they make contributions. Company contributions were approximately $89 and $225 for the three and nine month periods ended March 31, 2007,

respectively.

INTERPHARM HOLDINGS, INC. AND SUBSIDIARIES

(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 14 - Economic Dependency

Major Customers

The Company had the following customer concentrations for the three and nine month periods ended March 31, 2007 and 2006:

Sales - Percent of Revenue

	Three Months Ended March 31,		Nine Months Ended March 31,
	2007	2006	