

SEC Number 58648

File Number _____

INTERPHIL LABORATORIES, INC.

(Company's Full Name)

**CANLUBANG INDUSTRIAL ESTATE, BO. PITTLAND
4025 CABUYAO, LAGUNA**

(Company's Address)

(049) 549-23-45 to 49, 549-30-96 to 98

(Telephone Number)

DECEMBER 31

(Fiscal Year Ending)

(month & day)

FORM 17-Q

Form Type

Amendment Designation (if applicable)

June 30, 2006

Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended June 30, 2006
2. SEC Identification Number 58648
3. BIR Tax Identification No. 000-410-840-000
4. Interphil Laboratories, Inc
Exact name of registrant as specified in its charter
5. Philippines
Province, Country or other jurisdiction of incorporation or organization
6. (SEC Use Only)
Industry Classification Code
7. Canlubang Industrial Estate, Bo. Pittland
Cabuyao, Laguna
Address of issuer's principal office
8. (049) 549-23-45 to 49, 549-30-96 to 98
Issuer's telephone number, including area code
9. _____
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock and Amount of Debt Outstanding		Outstanding Common Stock
	As of June 30, 2006	Treasury Shares	
Common Class A	337,500,000	64,803,449	272,696,551
Common Class B	225,000,000	85,631,955	139,368,045
<u>TOTAL</u>	<u>562,500,000</u>	<u>150,435,404</u>	<u>412,064,596</u>

11. Are any or all of these securities listed on a Stock Exchange?

Yes No

If yes, state the name of such Stock Exchange and the class/es of the securities listed therein:
Philippine Stock Exchange Common (Class "A" and "B")

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes No

(b) has been subject to such filing requirements for the past 90 days.

Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The financial statements and schedule of aging of accounts receivable are filed as part of this Form 17-Q (pages 9 to 16)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

SUMMARY

The Company ended up with a Net Loss of Ps58.5 Million at the end of the second quarter of this year of which Ps 5.16M refers to non-cash expenses (depreciation and amortization).

Production Volume for the first six months decreased by 16% from last year's volume due to decrease in clients' demand. Production volume, product mix and high production costs remain the major issues that greatly affect the margin.

INCOME FROM SALES AND SERVICES

Volume at the end of the 2nd quarter is lower by 16% from last year's 50.3 Million units to this year's 42.3 Million units.

Company's Year-to-date Income from Sales and Services increased by 5% from last year's Ps916.3 Million to this year's Ps960.7 Million. Total materials sales decreased by 12% as a result of the decrease in volume while services increased by 28% with the implementation of price increases and new pricing models for 2006.

For the first six months, product mix was geared towards the dry products especially during the second quarter when it averaged 38% from the 30% on the first quarter.

COSTS AND EXPENSES

Total Cost of Services, net of cost of material, increased by 15% while operating expenses increased by 20%, as compared to the same period last year.

Increase in expenses was due to increase in salaries and wages, rental and leasing, depreciation and interest expense on loans. Salaries and wages and related fringe benefits increased by Ps10M this year due to the implementation of the increases as embodied in the recently concluded CBA (Collecting Bargaining Agreement) negotiation and the first tranche of the early retirement payout to employees. Interest expense on loans amounting to Ps24.8M increased on account of higher level of short term borrowings for working capital requirements. Depreciation increase is applicable to the additional investments in fixed and leased assets in 2005.

BALANCE SHEETS

Total Assets as of June 30, 2006 amounted to Ps1.776 Billion, an increase of Ps19.9 Million versus Ps1.756 Billion as of end December 2005 brought about by the increase in cash by 37% and inventories by 13%. Increase in cash of Ps 30.4M was due to loan obtained from an affiliate.

Total liabilities increased by Ps78.4 Million from last year's Ps1.14 Billion to this year's Ps1.22 Billion as a consequence of higher level of Trade and Other Payables of Ps585.8 Million. Increase in short term borrowings by Ps15 Million refers to additional unsecured peso loans obtained from banks to finance the net working capital requirements of the company. Obligations under finance lease decreased by 15% due to reduction in capital expenditure for machinery, equipment and vehicles acquired under finance lease agreements with the bank. A major portion of the budgeted capex spending for the year were put on hold as part of cost cutting measures and slack in volume.

PROJECTIONS

Clients' volume remained soft but we are compensating this with the increase in prices and continuous shift of production towards high value products. At the same time we are expanding our export market.

The company generated additional revenue through aggressive pricing negotiations with clients and the new pricing scheme that started in December 2004 and from the auxiliary services rendered for clients including stability, pilot batches and product registrations. It also expects to make extra income through investment in long-term development of formulations. Furthermore, it has put in place a permanent cost reduction scheme.

OTHER MATTERS

A) Key Performance Indicators

The Company's top five (5) key performance indicators are shown below with their relevant results for June 2006 and June 2005.

	% Increase (Decrease)	June, 2006 (Unaudited)	June, 2005 (Unaudited)
VOLUME ('000 SPUs)	(15.93%)	42,311	50,331
REVENUES ('000 PhP)	4.85%	960,747	916,311
GROSS PROFIT ('000 PhP)	174.66%	74,248	27,033
NET INCOME (LOSS) ('000 PhP)	30%	(58,451)	(83,506)
BASIC EARNINGS PER SHARE (Php)	30%	(0.1418)	(0.2027)

- 1) Volume Growth
Measures the percentage change in volume over a period of time. Volume is regularly monitored on a per product and per client basis.
 - 2) Revenue Growth
Measures the percentage change in revenue over a period of time. It is regularly monitored on a per product and per client basis.
 - 3) Gross Profit
Measures the pricing strategy of the Company. Computed as Revenue less Cost of Goods Sold
 - 4) Net Income
Measures the profitability of the company.
 - 5) Basic Earnings Per Share
Measures how much a stockholder earns in the Net Income of the Company. Basic Earnings per share is calculated by dividing Net Income by the weighted number of common shares issued and outstanding during a particular period of time.
- B) The effects of seasonality and cyclicity on the interim operations of the Company's businesses are not material.
- C) There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income, or cash flows.
- D) There are no material changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates in amounts reported in prior financial years.
- E) There are no issuances, repurchases, and repayments of debt and equity securities.
- F) There are no dividends paid (aggregate or per share) separately for ordinary shares and other shares.
- G) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

- H) There are no changes in the composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.
- I) There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- J) There are no known trends, events or uncertainties that have had or will have a material effect on the Company's liquidity.
- K) The Company's material commitments for capital expenditures consist of lease of fixed assets needed for the normal operations of the business.
- L) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- M) There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period, except for those stated in the Managements Discussion and Analysis of Financial Conditions and Results of Operations.

PART II - OTHER INFORMATION

1. **Disclosure not made under SEC Form 17-C.**
None.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer	<u>Interphil Laboratories, Inc.</u>
Signature and Title	<u>SANTIAGO GARCIA</u> <u>Mr. Santiago Garcia, Chief Operating Officer</u>
Date	_____
Principal Financial Officer	<u>Carmen Francisco</u> <u>Ms. Carmen T. Francisco</u>
Signature and Title	<u>Chief Financial Officer</u>
Date	_____

INTERPHIL LABORATORIES, INC.
BALANCE SHEETS
AS OF JUNE 30, 2006 and DECEMBER 31, 2005
(in '000s Pesos)

	JUNE 2006 UNAUDITED	DECEMBER 2005 AUDITED
ASSETS		
Current Assets		
Cash	113,362	82,979
Short-term investment	1,180	
Trade and other receivables-net	326,920	364,591
Inventories - net	402,596	355,517
Creditable withholding taxes	88,155	71,292
Advances to suppliers and other current assets	14,705	20,864
Total Current Assets	<u>946,918</u>	<u>895,243</u>
Noncurrent Assets		
Property, plant and equipment at cost-net	700,895	730,887
Land at revalued amount	112,195	112,195
Receivable from Manila Electric Company - net of current portion	6,901	9,308
Deposits	9,396	8,759
Total Noncurrent Assets	<u>829,387</u>	<u>861,148</u>
	<u>1,776,305</u>	<u>1,756,392</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable	382,500	367,500
Trade and other payables	585,854	514,287
Output tax	34,576	31,299
Current portion of obligations under finance lease	41,238	46,864
Total Current Liabilities	<u>1,044,168</u>	<u>959,951</u>
Noncurrent Liabilities		
Deferred income tax	29,688	29,688
Excess of accumulated equity in net loss of a joint venture over cost of related investment and advances	7,849	7,662
Retirement and long-term sick leave benefits	56,939	47,392
Obligations under finance lease-net of current portion	82,979	98,566
Total Noncurrent Liabilities	<u>177,454</u>	<u>183,307</u>
Stockholders' Equity		
Capital Stock	562,500	562,500
Additional Paid In Capital	51,629	51,629
Revaluation increment in land	60,617	60,617
Retained earnings	168,450	226,901
Cost of treasury shares	(288,514)	(288,514)
Total Stockholders' Equity	<u>554,682</u>	<u>613,133</u>
	<u>1,776,305</u>	<u>1,756,392</u>

INTERPHIL LABORATORIES, INC.
STATEMENTS OF INCOME & RETAINED EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 and 2005
(in '000s Pesos)

	2006	2005
	UNAUDITED	UNAUDITED
REVENUES	960,747	916,311
COST OF SALES AND SERVICES	886,499	889,278
GROSS PROFIT	74,248	27,033
Personnel	54,479	44,385
Interest expense	33,035	28,172
Rental and outside services	16,432	13,285
Taxes and licenses	5,020	4,613
Depreciation and amortization	5,161	2,910
Utilities	4,100	4,125
Supplies and related costs	6,521	4,992
Entertainment, amusement and representation	884	865
Repairs and maintenance	1,435	1,286
Insurance	1,072	1,425
Management fees	0	2,100
Other expenses	4,561	2,381
NET INCOME (LOSS)	(58,451)	(83,506)
Volume ('000 SPU)	42,311	50,331
Basic Earnings per share(P)*	(0.1418)	(0.2027)

* Net Income over the weighted number or shares outstanding

INTERPHIL LABORATORIES, INC.
STATEMENTS OF CHANGES IN EQUITY
(in Pesos 000s)

	Capital Stock		Additional Paid in Capital	Revaluation Increment in Land	Retained Earnings	Treasury Shares	Total
	Class A	Class B					
Balance as of December 31, 2005 AUDITED	337,500	225,000	51,629	60,617	226,901	(288,514)	613,133
Net loss					(58,451)		(58,451)
Balance as of June 30, 2006	<u>337,500</u>	<u>225,000</u>	<u>51,629</u>	<u>60,617</u>	<u>168,450</u>	<u>(288,514)</u>	<u>554,682</u>
Balance as of December 31, 2004 AUDITED	337,500	225,000	51,629	58,885	340,727	(288,514)	725,227
Net loss					(83,506)		(83,506)
Balance as of June 30, 2005	<u>337,500</u>	<u>225,000</u>	<u>51,629</u>	<u>58,885</u>	<u>257,221</u>	<u>(288,514)</u>	<u>641,721</u>

INTERPHIL LABORATORIES, INC.
STATEMENTS OF INCOME & RETAINED EARNINGS
FOR THE THREE MONTHS ENDED JUNE 30, 2006 and 2005
(in '000s Pesos)

	<u>2006</u> <u>UNAUDITED</u>	<u>2005</u> <u>UNAUDITED</u>
REVENUES	517,898	525,534
COST OF SALES AND SERVICES	<u>459,778</u>	<u>488,227</u>
GROSS PROFIT	58,120	37,307
Personnel	27,341	21,484
Interest expense	18,718	15,263
Rental and outside services	8,673	7,112
Taxes and licenses	2,385	2,293
Depreciation and amortization	2,638	1,442
Utilities	2,047	1,940
Supplies and related costs	3,252	3,167
Entertainment, amusement and representation	343	434
Repairs and maintenance	860	742
Insurance	534	(2,447)
Management fees		1,050
Provision for Inventory Losses	1,472	1,896
Other expenses	3,809	1,424
NET INCOME (LOSS)	<u>(13,951)</u>	<u>(18,492)</u>
RETAINED EARNINGS AT BEGINNING OF THE QUARTER	<u>182,401</u>	<u>275,712</u>
RETAINED EARNINGS AT END OF THE QUARTER	<u>168,450</u>	<u>257,221</u>
Volume ('000 SPU)	<u>19,236</u>	<u>29,014</u>
Basic Earnings per share(P)*	<u>(0.0338)</u>	<u>(0.0448)</u>

* Net Income over the weighted number of shares outstanding

INTERPHIL LABORATORIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 and 2005
(in '000s Pesos)

	2006	2005
	<u>UNAUDITED</u>	<u>UNAUDITED</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (Loss)	(58,451)	(83,506)
Adjustments for		
Depreciation and amortization	48,978	43,642
Retirement and long-term sick leave benefits	9,547	
Changes in assets and liabilities:		
Decrease (Increase) in:		
Trade and other receivables	37,671	(70,788)
Receivable from Manila Electric Company - net of current portion	2,407	
Inventories	(47,078)	28,761
Advances to suppliers and other current assets	6,159	10,245
Increase (decrease) in:		
Trade and other payables	54,891	104,803
Output tax	3,277	2,948
Cash generated from operations	<u>57,327</u>	<u>75,969</u>
Net cash provided by operating activities	<u>57,401</u>	<u>36,104</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	(18,987)	(44,529)
Decrease (Increase)		
Short-term investment	(1,180)	
Deposits	(637)	211
Cash used in investing activities	<u>(20,804)</u>	<u>(44,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (payments) of:		
Notes payable	15,000	57,000
Obligations under finance lease	(21,214)	13,713
Net cash used in financing activities	<u>(6,214)</u>	<u>70,713</u>
NET INCREASE (DECREASE) IN CASH	30,383	62,500
CASH AT BEGINNING OF THE PERIOD- Jan 1	82,979	31,152
CASH AT END OF THE PERIOD-June 30	<u>113,362</u>	<u>93,652</u>

INTERPHIL LABORATORIES, INC.
SCHEDULE OF AGING OF ACCOUNTS RECEIVABLE
AS OF JUNE 30, 2006
(in '000s Pesos)

	<u>TOTAL</u>	<u>1 Month</u>	<u>2-3 Mos</u>	<u>4-6 Mos</u>
Trade Receivables				
1) Third party	347,916	302,632	30,326	14,958
2) Affiliates	15,881	2,409	1,490	11,982
	<u>363,797</u>	<u>305,041</u>	<u>31,815</u>	<u>26,940</u>
Non-Trade Receivables				
1) Affiliates	(83,543)	(101,098)	1,459	16,097
Allowance for doubtful accounts	(3,407)			
Others Receivables	50,072			
ACCOUNTS RECEIVABLE - Net	<u><u>326,920</u></u>			

ACCOUNTS RECEIVABLE DESCRIPTION

Type	Nature/Description	Collection Period
1) Trade	Sale of Services (Toll + Assay) and Materials	30 days after invoice date
2) Non-Trade	Various	30 days after invoice date

NORMAL OPERATING CYCLE

INTERPHIL LABORATORIES, INC.
SCHEDULE OF AGING OF ACCOUNTS RECEIVABLE
AS OF JUNE 30, 2006
(in '000s Pesos)

	<u>TOTAL</u>	<u>1 Month</u>	<u>2-3 Mos</u>	<u>4-6 Mos</u>
Trade Receivables				
1) Third party	347,916	302,632	30,326	14,958
2) Affiliates	15,881	2,409	1,490	11,982
	<u>363,797</u>	<u>305,041</u>	<u>31,815</u>	<u>26,940</u>
Non-Trade Receivables				
1) Affiliates	(83,543)	(101,098)	1,459	16,097
Allowance for doubtful accounts	(3,407)			
Others Receivables	50,072			
ACCOUNTS RECEIVABLE - Net	<u><u>326,920</u></u>			

ACCOUNTS RECEIVABLE DESCRIPTION

Type	Nature/Description	Collection Period
1) Trade	Sale of Services (Toll + Assay) and Materials	30 days after invoice date
2) Non-Trade	Various	30 days after invoice date

NORMAL OPERATING CYCLE

NOTES TO FINANCIAL STATEMENTS :

1. General

Interphil Laboratories, Inc. (the "Company") is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC). The registered office address of the Company is Canlubang Industrial Estate, Bo. Pittland, Cabuyao, Laguna. The Company is engaged in manufacturing, processing, and packaging of drugs, chemicals, pharmaceuticals and veterinary products. The Company also renders services related to product supply requirements of client companies, primarily relating to planning and procurement of materials and other technical and quality control services.

The average number of employees of the Company is 640 at the end of the second quarter ending June 30, 2006

2. Summary of Significant Accounting Policies

General

The accompanying unaudited financial statements for the quarter ended June 30, 2006 have been prepared in conformity with accounting principles generally accepted in the Philippines.

Basis of Preparation

The accompanying unaudited financial statements have been prepared under the historical cost convention, except for land which is carried at revalued amounts.

The principal accounting policies adopted in preparing the interim unaudited financial statements of the Company for the quarter ended June 30, 2006 are the same as compared with the audited financial statements of the Company for the year ended December 31, 2005.

Earnings Per Share (EPS)

	<u>June 2006</u>	<u>June 2005</u>
a) Net income available to common stockholders	<u>(58,451)</u>	<u>(83,506)</u>
Common shares outstanding at beginning of year	412,065	412,065
Weighted average number of common shares acquired during the year		
b) Weighted average number of common shares outstanding	<u>412,065</u>	<u>412,065</u>
Earnings per share	<u>(0.1418)</u>	<u>(0.2027)</u>