

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(Mark One)

☒ Quarterly report under Section 13 or 15(D) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2004

☐ Transition report under Section 13 or 15(D) of the Exchange Act

For the transition period from _____ to _____

Commission file number 0-15888

IGENE Biotechnology, Inc.

(Exact name of Small Business Issuer as Specified in its Charter)

Maryland

(State or Other Jurisdiction of
Incorporation or organization)

52-1230461

(I.R.S. Employer
Identification No.)

9110 Red Branch Road, Columbia, Maryland 21045-2024
(Address of Principal Executive Offices)

(410) 997-2599

(Issuer's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Check whether the Issuer: (1) filed all reports required to be filed by Section 13 or 15(D) of the Exchange Act during the past 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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
97,047,020 shares as of August 10, 2004.

Transitional Small Business Disclosure Format (check one):

Yes No x

FORM 10-QSB
IGENE Biotechnology, Inc.

INDEX

| | | | |
|---------|---|---|-------|
| PART I | - | FINANCIAL INFORMATION | Page |
| | | Consolidated Balance Sheets | 5-6 |
| | | Consolidated Statements of Operations | 7 |
| | | Consolidated Statements of Stockholders' Deficit | 8-9 |
| | | Consolidated Statements of Cash Flows | 10 |
| | | Notes to Consolidated Financial Statements | 11-16 |
| | | Management's Discussion and Analysis of Financial Conditions and Results of Operations | 17-22 |
| PART II | - | OTHER INFORMATION | 23-24 |
| | | SIGNATURES | 25 |
| | | EXHIBIT INDEX | 26 |

IGENE BIOTECHNOLOGY, INC.
QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

PART I
FINANCIAL INFORMATION

IGENE Biotechnology, Inc. and Subsidiaries
Consolidated Balance Sheets

| | June 30, 2004 <u>(Unaudited)</u> | December 31, 2003 <u></u> |
|--|--|---------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 36,586 | \$ 63,075 |
| Accounts receivable | 102,333 | 156,458 |
| Due From Joint Venture | 697,243 | 495,183 |
| Prepaid expenses and other current assets | <u>30,499</u> | <u>43,675</u> |
| | 866,661 | 758,391 |
| OTHER ASSETS | | |
| Property and equipment, net | 139,307 | 148,931 |
| Loans receivable from manufacturing agent | 118,965 | 122,964 |
| Investment in unconsolidated joint venture | 9,629,506 | 11,391,506 |
| Other assets | <u>5,195</u> | <u>4,886</u> |
| TOTAL ASSETS | <u><u>\$ 10,759,634</u></u> | <u><u>\$ 12,426,678</u></u> |

The accompanying notes are an integral part of the financial statements.

IGENE Biotechnology, Inc. and Subsidiaries
Consolidated Balance Sheets
(continued)

| | June 30, 2004 <u>(Unaudited)</u> | December 31, 2003 <u></u> |
|--|--|---------------------------------|
| LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 212,035 | \$ 185,862 |
| Equipment lease payable | <u>---</u> | <u>1,498</u> |
| TOTAL CURRENT LIABILITIES | 212,035 | 187,360 |
| LONG-TERM LIABILITIES | | |
| Notes payable | 5,842,267 | 5,842,767 |
| Convertible debentures | 4,624,212 | 4,814,212 |
| Accrued interest | 3,800,899 | 3,398,272 |
| REDEEMABLE PREFERRED STOCK | | |
| Carrying amount of redeemable preferred stock, 8% cumulative, convertible, voting, series A, \$.01 par value per share. Stated value was \$ 18.08 and \$17.44, respectively. Authorized 1,312,500 shares, issued 18,509 and 25,605 respectively | <u>334,643</u> | <u>454,745</u> |
| Carrying amount of redeemable preferred stock, 8% cumulative, convertible, voting, series B, \$.01 par value per share. Stated value \$8.80 per share. Authorized, issued and outstanding zero and 187,500 shares, respectively, Redemption amount \$1,500,000 | <u>---</u> | <u>1,650,000</u> |
| TOTAL LIABILITIES | <u>14,814,056</u> | <u>16,347,356</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock --- \$.01 par value per share. Authorized 750,000,000 shares; issued and outstanding 98,003,270 and 92,747,469 shares, respectively. | 980,033 | 927,475 |
| Additional paid-in capital | 36,721,538 | 34,471,490 |
| Deficit | <u>(41,755,993)</u> | <u>(39,319,643)</u> |
| TOTAL STOCKHOLDERS' DEFICIT | <u>(4,054,422)</u> | <u>(3,920,678)</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | <u>\$ 10,759,634</u> | <u>\$ 12,426,678</u> |

The accompanying notes are an integral part of the financial statements.

IGENE Biotechnology, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

| | <u>Three months ended</u> | | <u>Six months ended</u> | |
|--|---------------------------|----------------------|-------------------------|----------------------|
| | <u>June 30,</u> | <u>June 30,</u> | <u>June 30,</u> | <u>June 30,</u> |
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| <u>REVENUE</u> | | | | |
| Sales - AstaXin® | \$ --- | \$ 152,705 | \$ --- | \$ 463,486 |
| Cost of sales – AstaXin® | <u>---</u> | <u>143,962</u> | <u>---</u> | <u>444,946</u> |
| GROSS PROFIT | <u>---</u> | <u>8,743</u> | <u>---</u> | <u>18,540</u> |
| <u>OPERATING EXPENSES</u> | | | | |
| Marketing and selling | 161,245 | 118,569 | 209,267 | 219,855 |
| Research, development and pilot plant | 195,522 | 223,004 | 403,932 | 378,401 |
| General and administrative | 210,950 | 242,388 | 360,828 | 384,327 |
| Litigation expense | 27,500 | --- | 40,580 | --- |
| Operating expenses reimbursed by Joint Venture | <u>(380,131)</u> | <u>(564,381)</u> | <u>(743,175)</u> | <u>(564,381)</u> |
| TOTAL OPERATING EXPENSES | <u>215,086</u> | <u>19,580</u> | <u>271,432</u> | <u>418,202</u> |
| OPERATING LOSS | (215,086) | (10,837) | (271,432) | (399,662) |
| EQUITY IN LOSS OF UNCONSOLIDATED SUB | (1,088,000) | (347,000) | (1,762,000) | (347,000) |
| INTEREST EXPENSE | <u>(213,182)</u> | <u>(177,901)</u> | <u>(402,918)</u> | <u>(383,132)</u> |
| NET LOSS FROM CONTINUING OPERATIONS | (1,516,268) | (535,738) | (2,436,350) | (1,129,794) |
| <u>DISCONTINUED OPERATIONS</u> | | | | |
| Gain on disposal of discontinued operations | <u>---</u> | <u>---</u> | <u>---</u> | <u>237,437</u> |
| NET LOSS | <u>\$(1,516,268)</u> | <u>\$ (535,738)</u> | <u>\$(2,436,350)</u> | <u>\$ (892,357)</u> |
| BASIC AND DILUTED NET LOSS | | | | |
| PER COMMON SHARE | | | | |
| FROM CONTINUING OPERATIONS | <u>\$ (0.02)</u> | <u>(0.01)</u> | <u>\$ (0.03)</u> | <u>(0.01)</u> |
| BASIC AND DILUTED NET INCOME (LOSS) | | | | |
| PER COMMON SHARE | | | | |
| FROM DISCONTINUED OPERATIONS | <u>\$ (0.00)</u> | <u>(0.00)</u> | <u>\$ (0.00)</u> | <u>(0.00)</u> |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | <u><u>\$ (0.02)</u></u> | <u><u>(0.00)</u></u> | <u><u>\$ (0.03)</u></u> | <u><u>(0.01)</u></u> |

The accompanying notes are an integral part of the financial statements.

IGENE Biotechnology, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit
(Unaudited)

| | <u>Redeemable Preferred Stock</u> <u>(shares/amount)</u> | |
|--|---|--------------------|
| Balance at January 1, 2003 | 213,655 | \$1,947,774 |
| Cumulative undeclared dividends on redeemable preferred stock | --- | 8,194 |
| Conversion of preferred stock to common | 550 | (9,416) |
| Exercise of warrants | --- | --- |
| Net loss for the six months ended June 30, 2003 | <u>---</u> | <u>---</u> |
| Balance at June 30, 2003 | <u>213,105</u> | <u>\$1,946,552</u> |
| Balance at January 1, 2004 | 213,105 | \$2,104,745 |
| Cumulative undeclared dividends on redeemable preferred stock | --- | 7,058 |
| Conversion of preferred stock to common | (194,596) | (1,777,160) |
| Exercise of warrants | --- | --- |
| Net loss for the six months ended June 30, 2004 | <u>---</u> | <u>---</u> |
| Balance at June 30, 2004 | <u>18,509</u> | <u>\$ 334,643</u> |

The accompanying notes are an integral part of the financial statements.

IGENE Biotechnology, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit
(Unaudited – Continued)

| | Common Stock (shares/amount) | | Additional Paid-in Capital | Deficit | Total Stockholders' Deficit |
|--|---------------------------------|-------------------|----------------------------------|-----------------------|-----------------------------------|
| Balance at January 1, 2003 | 92,943,746 | \$ 929,437 | \$ 22,387,604 | \$(37,120,502) | \$(13,803,461) |
| Cumulative undeclared dividends on redeemable preferred stock | --- | --- | (8,450) | --- | (8,450) |
| Shares received and retired in ProBio Sale | (7,000,000) | (70,000) | (140,000) | --- | (210,000) |
| Investment in unconsolidated joint venture | --- | --- | 11,983,131 | --- | 11,983,131 |
| Shares issued for manufacturing agreement | 1,130,023 | 11,301 | 33,435 | --- | 44,736 |
| Net loss for the six months ended June 30, 2003 | <u>---</u> | <u>---</u> | <u>---</u> | <u>(892,357)</u> | <u>(892,357)</u> |
| Balance at June 30, 2003 | <u>87,073,769</u> | <u>\$ 870,738</u> | <u>\$ 34,255,721</u> | <u>\$(38,012,859)</u> | <u>\$ (2,886,400)</u> |
| Balance at January 1, 2004 | 92,747,469 | \$ 927,475 | \$ 34,471,490 | \$(39,319,643) | \$ (3,920,678) |
| Cumulative undeclared dividends on redeemable preferred stock | --- | --- | (7,058) | --- | (7,058) |
| Conversion of redeemable preferred stock | 389,192 | 3,892 | 1,773,268 | --- | 1,777,160 |
| Shares issued for manufacturing agreement | 1,361,609 | 13,616 | 171,263 | --- | 184,879 |
| Shares reissued for ProBio agreement | 1,000,000 | 10,000 | 100,000 | --- | 110,000 |
| Conversion of ProBio debentures | 1,900,000 | 19,000 | 171,000 | --- | 190,000 |
| Shares issued for payment of legal services | 250,000 | 2,500 | 25,000 | --- | 27,500 |
| Conversion of Notes Payable | 5,000 | 50 | 325 | --- | 375 |
| Exercise of employee stock options | 350,000 | 3,500 | 16,250 | --- | 19,750 |
| Net loss for the six months ended June 30, 2004 | <u>---</u> | <u>---</u> | <u>---</u> | <u>(2,436,350)</u> | <u>(2,436,350)</u> |
| Balance at June 30, 2004 | <u>98,003,270</u> | <u>\$ 980,033</u> | <u>\$ 36,721,538</u> | <u>\$(41,755,993)</u> | <u>\$ (4,054,422)</u> |

The accompanying notes are an integral part of the financial statements.

IGENE Biotechnology, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

| | <u>Six months ended</u> | |
|--|--------------------------------|--------------------------------|
| | <u>June 30,</u> <u>2004</u> | <u>June 30,</u> <u>2003</u> |
| Cash flows from operating activities | | |
| Net loss | \$(2,436,350) | \$ (892,357) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 9,624 | 11,784 |
| Amortization | --- | 54,729 |
| Issuance of Shares to Fermtech per ProBio agreement | 110,000 | --- |
| Manufacturing cost paid in shares of common stock | 184,879 | 44,736 |
| Issuance of common stock for legal services | 27,500 | --- |
| Equity in loss of unconsolidated sub | 1,762,000 | 347,000 |
| Decrease (increase) in: | | |
| Accounts receivable | 58,125 | (48,590) |
| Inventory | --- | 374,709 |
| Due from Joint Venture | (202,060) | --- |
| Prepaid expenses and other current assets | 12,866 | 43,729 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | <u>428,800</u> | <u>29,974</u> |
| Net cash used in operating activities | <u>(44,616)</u> | <u>(34,286)</u> |
| Cash flows from investing activities | | |
| Capital (expenditures) and sales | <u>---</u> | <u>3,209</u> |
| Net cash provided by investing activities | <u>---</u> | <u>3,209</u> |
| Cash flows from financing activities | | |
| Proceeds (repayment) from borrowing | (125) | (100,000) |
| Payment of equipment lease | (1,498) | --- |
| Proceeds from exercise of employee stock options | <u>19,750</u> | <u>---</u> |
| Net cash (used) provided by financing activities | <u>18,127</u> | <u>(100,000)</u> |
| Net decrease in cash and cash equivalents | (26,489) | (131,077) |
| Cash and cash equivalents at beginning of period | <u>63,075</u> | <u>497,711</u> |
| Cash and cash equivalents at end of period | <u>\$ 36,586</u> | <u>\$ 366,634</u> |
| <u>Supplementary disclosure and cash flow information</u> | | |
| Cash paid for interest | \$ 24,347 | \$ 30,994 |
| Cash paid for income taxes | --- | --- |

See Note (2) for non-cash investing and financing activities.

The accompanying notes are an integral part of the financial statements.

IGENE Biotechnology, Inc. and Subsidiary
Notes to Financial Statements

(1) Unaudited consolidated financial statements

The June 30, 2004, consolidated financial statements presented herein are unaudited, and in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of financial position, results of operation and cash flows. Such financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This quarterly report on Form 10-QSB should be read in conjunction with Igene's Annual Report on Form 10-KSB for the year ended December 31, 2003.

(2) Nature of Operations

Igene Biotechnology, Inc. (the "Company") was incorporated under the laws of the State of Maryland on October 27, 1981 as "Industrial Genetics, Inc." Igene changed its name to "IGI Biotechnology, Inc." on August 17, 1983 and to "Igene Biotechnology, Inc." on April 14, 1986. Igene is located in Columbia, Maryland and is engaged in the business of industrial microbiology and related biotechnologies. As a result of the stock purchase, ProBio became our wholly-owned subsidiary. Igene has operational subsidiaries in Norway and Chile. IGENE Biotechnology, Inc. (the "Company") is engaged in the business of developing, marketing, and manufacturing specialty ingredients for human and animal nutrition. Igene was formed to develop, produce and market value-added specialty biochemical products. Igene is a supplier of natural astaxanthin, an essential nutrient in different feed applications and as a source of pigment for coloring farmed salmon species. Igene also supplies nutraceutical ingredients, as well as consumer ready health food supplements, including astaxanthin. Igene is focused on fermentation technology, pharmacology, nutrition and health in its marketing of products and applications worldwide.

Igene has devoted its resources to the development of proprietary processes to convert selected agricultural raw materials or feedstocks into commercially useful and cost effective products for the food, feed, flavor and agrochemical industries. In developing these processes and products, Igene has relied on the expertise and skills of its in-house scientific staff and, for special projects, various consultants.

In an effort to develop a dependable source of production, March 19, 2003, Tate & Lyle PLC and Igene Biotechnology, Inc announced a 50:50 joint venture to produce AstaXin® for the aquaculture industry. Production will utilize Tate & Lyle's fermentation capability together with the unique technology developed by Igene. Part of Tate & Lyle's existing Selby, England, citric acid facility will be modified to include the production of 1,500 tons per annum of this product. Tate & Lyle's investment of \$25 million includes certain of its facility assets currently used in citric acid production. Commercial production is expected to commence in the calendar year 2004.

(3) Noncash investing and financing activities

During the six months ended June 30, 2004, the 194,596 shares of redeemable preferred stock, with a recorded aggregate value of \$1,777,160, were converted into 389,192 shares of common stock. This portion included the 8% Cumulative Convertible Preferred Stock, Series B and has relieved the company of this amount from long-term debt.

During the six months ended June 30, 2004, \$190,000 of the \$1,000,000 of Convertible Debentures issued as part of the 2001 ProBio purchase, were converted to common stock. These shares were converted at \$.10 per share, for a total of 1,900,000 shares. These shares were issued and the notes cancelled. This relieved the Company of \$190,000 of long-term debt.

IGENE Biotechnology, Inc. and Subsidiary
Notes to Financial Statements
(continued)

During the six months ended June 30, 2004, 250,000 shares were issued to the Company's attorney as a bonus in connection with the settlement of the ADM matter. These shares were issued at an estimated value of \$.11 per share, aggregating to \$27,500. These costs were expensed in the second quarter as part of the ADM legal expense.

During the six months ended June 30, 2004, \$500 of Notes Payable were converted using 5,000 warrants at \$.075 per share. The notes and warrants were cancelled and 5,000 shares of common stock were issued.

During the six months ended June 30, 2004, 350,000 shares of common stock were issued as part of employee stock option exercises. The Company received \$19,750 based on an average exercise price of \$.056 per share.

During the six months ended June 30, 2004 and 2003, Fermic, Igene's manufacturing agent, earned 1,361,609 and 1,130,023 shares, respectively, of common stock as part of the manufacturing agreement. Fermic earns 2,250 shares of common stock for each kilogram pure Astaxanthin produced and delivered as part of the agreement. The average price is based on the market value of the shares at the time the product is produced. Fermic can earn up to 20,000,000 shares in total under the contract. The 1,361,609 shares were earned at an average price of \$.135 per share for 2004, and 1,130,023 shares were earned at an average price of \$.05 per share for 2003. Through June 30, 2004, 12,450,832 shares have been earned. Any shares earned by Fermic will be issued on a quarterly basis. Igene relied on Section 4(2) of the Securities Act of 1933, as amended, to issue the shares to Fermic without registration under that act. Igene relied on the representations and warranties of Fermic made in the manufacturing agreement in claiming the aforementioned exemption.

During the six months ended June 30, 2004 and 2003, the Company recorded in each quarter dividends in arrears on 8% redeemable preferred stock cumulating at \$.16 per share aggregating to \$7,058 and \$8,449, respectively, which has been removed from paid-in capital and included in the carrying value of the redeemable preferred stock.

On March 11, 2003, the Company entered into a Joint Venture Agreement with Tate & Lyle Fermentation Products Ltd. ("Tate"). Pursuant to the Joint Venture Agreement, the Company and Tate agreed to form a joint venture (the "Joint Venture") to manufacture, market and sell Astaxanthin and derivative products throughout the world for all uses other than as a Nutraceutical or otherwise for direct human consumption. Tate contributed \$24,600,000 in cash to the Joint Venture, while the Company has agreed to transfer to the Joint Venture its technology relating to the production of Astaxanthin and assets related thereto. These assets will continue to be used by the Joint Venture in the same manner as historically used by the Company. The Company and Tate each have a 50% ownership interest in the Joint Venture and equal representation on the Board of Directors of the Company. The value of the Company's technology investment was deemed equivalent to the cash contribution made by Tate & Lyle. Unamortized production costs in the amount of \$316,869 were contributed to the Joint Venture reducing the adjustment to additional paid in capital.

In February, 2003, Igene sold its subsidiary ProBio to Fermtech AS in exchange for aggregate consideration valued at approximately \$343,000, consisting of 7,000,000 shares of Igene common stock (including 2,000,000 shares that were placed into escrow and may be reissued to Fermtech as described below), valued for the purposes of the acquisition at \$.03 per share, plus forgiveness of approximately \$168,000 of debt that Igene owed to ProBio at the time of purchase in 2001. The escrowed 2,000,000 shares were to be earned by Fermtech based upon Mr. Benjamin's continued employment with the

IGENE Biotechnology, Inc. and Subsidiary
Notes to Financial Statements
(continued)

Company. As Mr. Benjaminsen remained employed by Igene through 2003, 1,000,000 of the escrowed shares of common stock were delivered to Fermtech. These shares were expensed in the second quarter of 2004, as a marketing expense of \$110,000. If Mr. Benjaminsen remains employed by Igene through 2004, the remaining 1,000,000 escrowed shares will be released from escrow and delivered to Fermtech.

During the six months ended June 30, 2003, the Company elected to extend repayment on demand notes of \$6,043,659 and related accrued interest of \$2,865,810 until March 31, 2006.

(4) Foreign Currency Translation and Transactions

Since the day-to-day operations of Igene's foreign subsidiary in Chile are dependent on the economic environment of the parent's currency, the financial position and results of operations of Igene Chile are determined using Igene's reporting currency (US dollars) as the functional currency. All exchange gains and losses from remeasurement of monetary assets and liabilities that are not denominated in US dollars are recognized currently in income. These losses and gains occurred primarily as a result of the effect of valuation of the Chilean Peso on Igene's accounts receivables, which are mostly denominated in Pesos.

(5) Joint Venture

On March 18, 2003, the Company entered into a Joint Venture Agreement with Tate & Lyle Fermentation Products Ltd. ("Tate"). Pursuant to a Joint Venture Agreement, the Company and Tate agreed to form the Joint Venture to manufacture, market and sell Astaxanthin and derivative products throughout the world for all uses other than as a Nutraceutical or otherwise for direct human consumption. Tate contributed \$24,600,000 in cash to the Joint Venture, while the Company has agreed to contribute to the Joint Venture its technology relating to the production of Astaxanthin and assets related thereto. These assets will continue to be used by the Joint Venture in the same manner as historically used by the Company. The Company and Tate each have a 50% ownership interest in the Joint Venture and equal representation on the Board of Directors of the Joint Venture Company. Unamortized production costs in the amount of \$316,869 were contributed to the Joint Venture reducing the adjustment to additional paid in capital.

The Joint Venture is accounted for under the equity method. Astaxanthin revenue is recorded on the books of the Joint Venture. Certain costs incurred by Igene are reimbursed by the Joint Venture. These reimbursements are reported as a contra amount in the Operating Expense section of the Igene's Consolidated Statements of Operations.

(6) Stockholders' Equity (Deficit)

As of June 30, 2004 and 2003, 37,018 and 52,310 shares, respectively, of authorized but unissued common stock were reserved for issue upon conversion of the Company's outstanding preferred stock.

As of June 30, 2004 and 2003, 74,354,500 and 74,604,500 shares, respectively, of authorized but unissued common stock were reserved for issue and exercise pursuant to the Company's Employee Stock Option Plans.

As of June 30, 2004 and 2003, 10,000,000 and 6,666,666 shares, respectively, of authorized but unissued common stock were reserved for distribution and exercise pursuant to a stock option agreement with past officers of the Company.

IGENE Biotechnology, Inc. and Subsidiary
Notes to Financial Statements
(continued)

As of June 30, 2004 and 2003, 17,565,970 shares of authorized but unissued common stock were reserved for the conversion of outstanding convertible promissory notes in the aggregate amount of \$1,082,500 held by directors of the Company.

As of June 30, 2004 and 2003, 66,427,651 shares of authorized but unissued common stock were reserved for the conversion of outstanding convertible promissory notes held by directors of the Company.

As of June 30, 2004 and 2003, 8,100,000 and 10,000,000 shares, respectively, of authorized but unissued common stock were reserved for the conversion of outstanding convertible promissory notes issued as part of the purchase of ProBio.

As of June 30, 2004 and 2003, 205,261,073 and 198,016,073 shares, respectively, of authorized but unissued common stock were reserved for the exercise of outstanding warrants.

As of June 30, 2004 and 2003, 7,549,168 and 10,566,708 shares, respectively, of authorized but unissued common stock were reserved for issuance to the Company's contract manufacturer pursuant to the terms of the current manufacturing contract.

(7) Basic and diluted net loss per common share

Basic and diluted net loss per common share for the six-month periods ended June 30, 2004 and 2003, is based on 94,871,391 and 86,524,457 shares, respectively, of weighted average common shares outstanding. For purposes of computing net loss per common share, the amount of net loss has been increased by cumulative undeclared dividends in arrears on preferred stock in the amount of \$7,058 and \$8,449 for the six months ended June 30, 2004 and 2003, respectively. No adjustment has been made for any common stock equivalents outstanding because their effects would be antidilutive.

(8) Income Taxes

The Company uses the liability method of accounting for income taxes as required by SFAS No. 109, "Accounting for Income Taxes". Under the liability method, deferred-tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences reverse. Deferred income taxes will be recognized when it is deemed more likely than not that the benefits of such deferred income taxes will be realized; accordingly, all net deferred income taxes have been eliminated by a valuation allowance.

(9) Uncertainty

Igene has incurred net losses in each year of its existence, aggregating approximately \$41,700,000 from inception to June 30, 2004 and its liabilities and redeemable preferred stock exceeded its assets by approximately \$4,054,000 at that date. These factors indicate that Igene will not be able to continue in existence unless it is able to raise additional capital and attain profitable operations.

The continuing successful marketing of Igene's product, AstaXin®, has permitted Igene the opportunity to attract additional capital through its venture with Tate and Lyle. Igene began manufacturing and selling AstaXin® during 1998 and has continued to do so to date, attempting to increase sales and manufacturing levels. Igene believes this technology to be highly marketable. Igene hopes to continue increasing sales of AstaXin®, eventually achieving gross profits and, subsequently, profitable operations, although the achievement of these cannot be assured.

IGENE Biotechnology, Inc. and Subsidiary
Notes to Financial Statements
(continued)

(10) Stock Based Compensation

The Company accounts for its stock based compensation plans under the recognition and measurement principles of APB opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. No stock option based employee compensation cost is reflected in net income, as all options granted under the plan had 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 earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", to stock-based employee compensation for the three and six months ended June 30:

| | <u>Three months ended</u> | | <u>Six months ended</u> | |
|--|---------------------------|---------------------|-------------------------|-----------------------|
| | <u>June 30,</u> | <u>June 30,</u> | <u>June 30,</u> | <u>June 30,</u> |
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Net loss: | | | | |
| As reported | \$ (1,516,268) | \$ (535,738) | \$ (2,436,350) | \$ (829,357) |
| Less pro forma stock-based employee compensation expense determined under fair value based method net of related tax effects | <u>(156,892)</u> | <u>(159,578)</u> | <u>(330,447)</u> | <u>(264,162)</u> |
| Net loss | <u>\$ (1,673,160)</u> | <u>\$ (695,316)</u> | <u>\$ (2,766,797)</u> | <u>\$ (1,156,519)</u> |
| Net loss per Share: | | | | |
| Basic - as reported | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.01) |
| Basic - pro forma | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.01) |
| Diluted - as reported | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.01) |
| Diluted - pro forma | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.01) |

(11) Recent Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. There was no material impact on the Company's financial condition or results of operations upon adoption of this statement.

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as a liability, although the financial instrument may previously have been classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The effect of adopting this pronouncement required the reclassification of \$2.04 million of redeemable preferred stock as a liability as of December 31, 2003.

IGENE Biotechnology, Inc. and Subsidiary
Notes to Financial Statements
(continued)

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46") which explains identification of variable interest entities and the assessment of whether to consolidate the entities. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among the involved parties. The provisions of FIN 46 are effective for all financial statements issued after January 1, 2003. The Company had no significant variable interest in any entities which would require disclosure or consolidation. The Company's investment in the Joint Venture does not meet the criteria of a variable interest entity under Fin 46.

(12) Summary of Significant Activity of Joint Venture

The following statement displays the significant activity for the Joint Venture for the three and six month ended June 30, 2004. As shown, 50% of the activity is recorded as part of Igene's Financial Statements as income from investment in Joint Venture:

| | Three Months Ended <u>June 30, 2004</u> | Six Months Ended <u>June 30, 2004</u> |
|----------------------------------|---|---|
| Net Sales | \$ 862,000 | \$ 2,006,000 |
| Less: manufacturing cost | <u>(2,125,000)</u> | <u>(3,998,000)</u> |
| Gross Profit | (1,263,000) | (1,982,000) |
| Less: selling, general and admin | <u>(910,000)</u> | <u>(1,532,000)</u> |
| Operating Loss | (2,173,000) | (3,514,000) |
| Interest Expense | <u>(3,000)</u> | <u>(10,000)</u> |
| Loss before tax | <u>\$ (2,176,000)</u> | <u>\$ (3,524,000)</u> |
| 50% equity interest Igene | <u>\$ (1,088,000)</u> | <u>\$ (1,762,000)</u> |

IGENE Biotechnology, Inc. and Subsidiaries
Management's Discussion and Analysis of
Financial Condition and Results of Operations

CAUTIONARY STATEMENTS FOR PURPOSES OF "SAFE HARBOR PROVISIONS" OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

EXCEPT FOR HISTORICAL FACTS, ALL MATTERS DISCUSSED IN THIS REPORT, WHICH ARE FORWARD LOOKING, INVOLVE A HIGH DEGREE OF RISK AND UNCERTAINTY. CERTAIN STATEMENTS IN THIS REPORT SET FORTH MANAGEMENT'S INTENTIONS, PLANS, BELIEFS, EXPECTATIONS OR PREDICTIONS OF THE FUTURE BASED ON CURRENT FACTS AND ANALYSES. WHEN WE USE THE WORDS "BELIEVE," "EXPECT," "ANTICIPATE," "ESTIMATE," "INTEND" OR SIMILAR EXPRESSIONS, WE INTEND TO IDENTIFY FORWARD-LOOKING STATEMENTS. YOU SHOULD NOT PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH STATEMENT, DUE TO A VARIETY OF FACTORS, RISKS AND UNCERTAINTIES. POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, COMPETITIVE PRESSURES FROM OTHER COMPANIES AND WITHIN THE BIOTECH INDUSTRY, ECONOMIC CONDITIONS IN THE COMPANY'S PRIMARY MARKETS, EXCHANGE RATE FLUCTUATIONS, REDUCED PRODUCT DEMAND, INCREASED COMPETITION, INABILITY TO PRODUCE REQUIRED CAPACITY, UNAVAILABILITY OF FINANCING, GOVERNMENT ACTION, WEATHER CONDITIONS AND OTHER UNCERTAINTIES.

Overview of Financial Position

During the six-month periods ended June 30, 2004 and 2003, in addition to the Joint Venture discussed in more detail below, the following actions materially affected the Company's financial position.

- During the six months ended June 30, 2004, 194,596 shares of redeemable preferred stock, with a recorded aggregate value of \$1,777,160, were converted into 389,192 shares of common stock. This portion included the 8% Cumulative Convertible Preferred Stock, Series B preferred securities and has relieved the company of this amount from long-term debt.
- During the six months ended June 30, 2004, \$190,000 dollars of the \$1,000,000 of Convertible Debentures issued as part of the 2001 ProBio purchase, were converted to common stock. These shares were converted at \$.10 per share, for a total of 1,900,000 shares. These shares were issued and the notes cancelled, which relieved the Company of \$190,000, of long-term debt.
- Increases in accounts payables and accrued expenses of \$428,800 and decreases in accounts receivable of \$58,125 were sources of cash. These were reduced by increases due from Joint Venture of \$202,060.
- The carrying value of redeemable preferred stock was increased and paid-in capital available to common shareholders was decreased by \$7,058 in 2004 and \$8,194 in 2003, reflecting cumulative unpaid dividends on redeemable preferred stock.
- Proceeds of employee stock options provided \$19,750 in cash flows.

During the quarter ended June 30, 2004, the Joint Venture commissioned the Selby Production facility. Through the second quarter this plant has been in the start-up phase. This has resulted in the reported losses for the quarter as equipment is brought on-line and initially utilized for production activity

IGENE Biotechnology, Inc. and Subsidiaries
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(continued)

In December 1988, as part of an overall effort to contain costs and conserve working capital, Igene suspended payment of the quarterly dividend on its preferred stock. Resumption of the dividend will require significant improvements in cash flow. Unpaid dividends cumulate for future payment or addition to the liquidation preference or redemption value of the preferred stock. As of June 30, 2004, total dividends in arrears on Igene's preferred stock total \$186,571 (\$10.08 per share) and are included in the carrying value of the redeemable preferred stock.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make judgments, assumptions and estimates that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. The following are critical accounting policies important to our financial condition and results presented in the financial statements and require management to make judgments and estimates that are inherently uncertain:

The Joint Venture's inventories are stated at the lower of cost or market. Cost is determined using a weighted-average approach, which approximates the first-in first-out method. If the cost of the inventories exceeds their expected market value, provisions are recorded for the difference between the cost and the market value. Inventories consist of currently marketed products.

The Joint Venture recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns and discounts.

The Joint Venture will enter into a lease of real property with an affiliate of Tate & Lyle in Selby, England upon which a new manufacturing facility will be constructed and operated by the Joint Venture. The Joint Venture is accounted for under the equity method of accounting as the Company has a 50% ownership interest.

Results of Operations

Sales and other revenue

As part of the Joint Venture agreement, all further sales are recognized through the venture company. Therefore, Igene recorded no sales of AstaXin® during the six months ended June 30, 2004. Sales of AstaXin® during the quarter ended 2003 were \$152,705 and sales for the six-month periods ended June 30, 2003 were \$463,486. Sales activity for the Joint Venture are report below. Sales have been limited in the past quarters due to insufficient production quantity. As of June 30, 2003, Igene had sold the remaining inventory in the Company's possession to the Joint Venture per the Joint Venture Agreement. Management anticipates that the Joint Venture with Tate & Lyle will provide a more dependable product flow. However, there can be no assurance of the dependability of production, or that any increases in sales will occur, or that they will be material.

IGENE Biotechnology, Inc. and Subsidiaries
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(continued)

Cost of sales and gross profit

As with sales revenue, future cost of sales and gross profits will be recognized through the venture company. Igene reported no gross profit on sales of AstaXin® for the six months ended June 30, 2004. Gross profit on sales of AstaXin® was \$8,743 for the quarter ended June 30, 2003 and was \$18,540 for the six month period ended June 30, 2003. Gross profit was 4% of sales for the six months ended June 30, 2003. The Company attributes the fall in gross profit to a combination of pricing pressure in the market and inefficiencies in production. Management expects the level of gross profit to improve in the future as a percentage of sales. Demand is expected to increase as the Company increases customer usage and market share. Management expects the level of gross profit to improve with expected increases in production efficiency received from the Joint Venture with Tate & Lyle offsetting pricing competition, but can provide no assurances as to future increased production or gross profit.

Cost of sales for the quarter ended June 30, 2003, was \$143,962. Cost of sales for quarter ended June 30, 2004 was \$0.

Marketing and selling expenses

For the quarters ended June 30, 2004 and 2003, Igene recorded marketing and selling expense in the amount of \$161,245 and \$118,569, respectively, an increase of \$42,676 or 36%. For the six months ended June 30, 2004 and 2003, Igene recorded marketing and selling expense in the amount of \$209,267 and \$219,855, respectively, a decrease of \$10,588 or 5%. As a result of the disposition of its ProBio subsidiary in February 2003, Igene had expected reduced marketing and selling costs incurred as part of the prior combination with ProBio, such as increased sales force. In addition, the reduction of salable product currently available to Igene from its current manufacturer was expected to cause a corresponding reduction in marketing and selling expense. The current period marketing and selling expense increased as a result of recognizing the expense associated with the shares issued to Fermtech. As Mr. Benjaminsen remained employed by Igene through 2003, 1,000,000 of the escrowed shares of common stock were delivered to Fermtech. A marketing and selling expense of \$110,000 was recognized in the second quarter as a result of the issuance of the shares of common stock. If Mr. Benjaminsen remains employed by Igene through 2004, the remaining 1,000,000 escrowed shares will be released from escrow and delivered to Fermtech. As a result of the Joint Venture with Tate and Lyle, Igene is expecting an increase in salable product with a corresponding increase in marketing and sales costs at the point the new facility increases its level of production. Additionally, as a result of the Joint Venture, these expenses are reimbursed to Igene. However, no assurances can be made in regards to increased production from the new facility nor with regard to the corresponding increase in marketing and selling costs.

Research, development and pilot plant expenses

For the quarter ended June 30, 2004 and 2003, Igene recorded research and development costs in the amount of \$195,522 and \$223,004, respectively, a decrease of \$27,482 or 12%. For the six months ended June 30, 2004 and 2003, Igene recorded research and development costs in the amount of \$403,932 and \$378,401, respectively, an increase of \$25,531 or 7%. These costs are expected to remain relatively constant in support of increasing the efficiency of the manufacturing process through experimentation in the Company's pilot plant, developing higher yielding strains of yeast and other improvements in the Company's AstaXin® technology. Igene is hoping this will lead to an increase in salable product at a reduced cost to Igene and the Joint Venture. However no assurances can be made in that regard. These costs are currently funded through reimbursement from the Joint Venture.

IGENE Biotechnology, Inc. and Subsidiaries
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(continued)

Operating expenses

General and administrative expenses for the quarter ended June 30, 2004 and 2003 were \$210,950 and \$242,388 respectively, a decrease of \$31,438 or 13%. General and administrative expenses for the six months ended June 30, 2004 and 2003 were \$360,828 and \$384,327 respectively, a decrease of \$23,499 or 6%. These costs are expected to remain constant, as Igene works to keep overhead costs at a reduced level and spend funds on research and development efforts. A portion of this cost is funded by reimbursement through the Joint Venture and the remainder will need to be funded through profitable operations or through contributions from directors; though neither of these can be assured.

Litigation expenses

Previously reported litigation (original lawsuit filed July 21, 1997, U.S. District Court, Baltimore, MD) between Archer Daniels Midland, Inc. ("ADM") and Igene, involving allegations of patent infringement and counterclaims concerning the theft of trade secrets, was resolved on September 29, 2003. Resolution of the dispute between ADM and Igene did not result in an unfavorable outcome to Igene. Igene will continue to make and sell its product, AstaXin®. The Company incurred \$27,500 of litigation expenses for the three months ended June 30, 2004, and \$40,580 for the six months ended June 30, 2004. During the six months ended June 30, 2004, 250,000 shares were issued to the Company attorney, as a bonus in connection with the settlement of the ADM matter. These shares were issued at an estimated value of \$.11 per share, aggregating \$27,500. These costs were expensed in the second quarter as part of the litigation expense. With the settlement of this matter, the related costs are expected to cease.

Interest expense

Interest expense for the quarters ended June 30, 2004 and 2003 was \$213,182 and \$177,901, respectively, an increase of \$35,281 or 20%. For the six months ended June 30, 2004 and 2003, interest expense was \$402,918 and \$383,132, respectively, an increase of \$19,786 or 5%. The interest expense was almost entirely composed of interest on the Company's long term financing from its directors and other stockholders, and interest on the Company's subordinated debenture in both periods. It is expected this number may decrease due to the conversions by holders of long term debt to equity.

Equity in earnings of unconsolidated subsidiary

The following statement displays the significant activity for the Joint Venture for the three and six month ended June 30, 2004. As shown, 50% of the activity is recorded as part of Igene's Financial Statements as income from investment in Joint Venture:

| | Three Months Ended <u>June 30, 2004</u> | Six Months Ended <u>June 30, 2004</u> |
|----------------------------------|---|---|
| Net Sales | \$ 862,000 | \$ 2,006,000 |
| Less: manufacturing cost | <u>(2,125,000)</u> | <u>(3,998,000)</u> |
| Gross Profit | (1,263,000) | (1,982,000) |
| Less: selling, general and admin | <u>(910,000)</u> | <u>(1,532,000)</u> |
| Operating Loss | (2,173,000) | (3,514,000) |
| Interest Expense | <u>(3,000)</u> | <u>(10,000)</u> |
| Loss before tax | <u>\$ (2,176,000)</u> | <u>\$ (3,524,000)</u> |
| 50% equity interest Igene | <u>\$ (1,088,000)</u> | <u>\$ (1,762,000)</u> |

IGENE Biotechnology, Inc. and Subsidiaries
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(continued)

As a result of the Joint Venture, the production, sales and marketing of Astaxanthin now take place in the unconsolidated Joint Venture subsidiary. For the quarter ended June 30, 2004, Igene's portion of the Joint Venture loss was \$1,088,000. The loss was a result of a 50% interest in the following: Gross profit (loss) for the quarter was \$(1,263,000) on sales of \$862,000, less manufacturing cost of \$2,125,000. Selling and general and administrative expenses for the period were \$910,000 and interest income (expense) was \$(3,000). The resulting loss before tax was \$2,176,000. For the quarter ended June 30, 2004, Igene's 50% portion of the Joint Venture loss was \$1,088,000.

During the quarter ended June 30, 2004, the Joint Venture commissioned the Selby Production facility. Through the second quarter this plant has been in the start-up phase. This has resulted in the reported losses for the quarter as equipment is brought on-line and initially utilized for production activity.

Disposition of ProBio Subsidiary

As reported on Form 8-K filed on February 20, 2003, the Company, in an effort to focus on and grow its core business, disposed of all 10,000 of the issued and outstanding shares of capital stock of its former subsidiary, ProBio Nutraceuticals, AS, a Norwegian corporation. Fermtech AS, a joint stock company incorporated in the Kingdom of Norway and owned equally by our then chief executive officer, Stein Ulve and our then chief marketing officer, Per Benjaminsen, purchased the shares of ProBio. Effective December 31, 2002, Mr. Ulve resigned as CEO and director of Igene and Mr. Benjaminsen ceased acting as our chief marketing officer, though Mr. Benjaminsen has maintained a position with Igene.

The amount of consideration paid for ProBio was determined through arms-length negotiations between Igene management, on behalf of Igene, and Mr. Ulve, on behalf of Fermtech. The principles followed in determining the amount paid for the ProBio shares involved consideration of ProBio's cash flow, cash position, revenue and revenue prospects.

The equipment and other physical property disposed of belonging to ProBio included inventory, personal computers, a web site and trademark, other office equipment and furniture, and accounts receivables and accounts payables related to nutraceuticals. For the nine months ended September 30, 2002, the net operating loss of the division being sold as ProBio was \$340,632, on sales of \$1,555,014, and is reflected on the September 30, 2002 income statement of Igene as a loss from discontinued operations.

Gain on disposition

Igene sold ProBio to Fermtech AS in exchange for aggregate consideration valued at approximately \$343,000, consisting of 7,000,000 shares of Igene common stock that was owned by ProBio (including 2,000,000 shares that were placed into escrow and may be reissued to Fermtech as described below), valued for the purposes of the acquisition at \$.03 per share, plus forgiveness of approximately \$168,000 of debt that Igene owed to ProBio at the time of purchase in 2001. As Mr. Benjaminsen remained employed by Igene through 2003, 1,000,000 of the escrowed shares of common stock were delivered to Fermtech. These shares were expensed in the second quarter of 2004, as a marketing expense of \$110,000. If Mr. Benjaminsen remains employed by Igene through 2004, the remaining 1,000,000 escrowed shares will be released from escrow and delivered to Fermtech. Gain on disposal during the first quarter of 2003 was \$237,427. This gain was a one-time occurrence as a result of the disposition of the assets and liabilities associated with ProBio.

IGENE Biotechnology, Inc. and Subsidiaries
Management's Discussion and Analysis of
Financial Condition and Results of Operations
(continued)

Net loss and basic and diluted net loss per common share

As a result of the foregoing, the Company reported net losses of \$1,516,268 and \$535,738, respectively, for the quarters ended June 30, 2004 and 2003, an increase in the loss of \$980,530 or 183%. This represents a loss of \$.02 and \$.01 per basic and diluted common share in the quarters ended June 30, 2004 and 2003, respectively. The weighted average number of shares of common stock outstanding of 94,871,391 and 86,524,457, for the quarters ended June 30, 2004 and 2003, respectively, increased by 8,012,212 shares. This resulted from the weighted average adjustments of the following transactions: the issuance of 1,905,000 shares issued in conversion of debentures, 389,192 shares of common stock in conversion of preferred stock, 3,017,543 shares issued to the manufacturer as part of the agreement, 1,000,000 shares issued to Fermtech as part of the ProBio disposition agreement, and 450,000 shares issued as part of employee stock option exercises, and 250,000 shares issued as a bonus to the Company attorney in the ADM matter.

Liquidity and Capital Resources

Historically, Igene has been funded primarily by equity contributions and loans from stockholders. As of June 30, 2004, Igene had working capital of \$654,626, and cash and cash equivalents of \$36,586. Currently Igene is also funded by research and development reimbursements from the Joint Venture.

Cash used by operating activities during the six-month period ended June 30, 2004 and 2003 amounted to \$44,616 and \$34,286, respectively, an increase in cash used of \$10,330.

Cash of \$3,209 was provided by investing activities on asset sales for the six months ended June 30, 2003, and no cash was provided for the six-month period ended June 30, 2004.

Cash was used by financing activities in repayment of loans in the amount of \$100,000 for the six-month period ended June 30, 2003, as opposed to the \$18,127 provided by financing activities for the six-month period ended June 30, 2002. Financing activities consisted primarily of employee stock option plan purchases.

Over the next twelve months, Igene believes it will need additional working capital. Igene hopes to achieve profits from sales of AstaXin® through the Joint Venture. This funding is expected to be received from the new venture with Tate & Lyle. However, there can be no assurance that projected profits, if any, from sales, or additional funding from the Joint Venture will be sufficient for Igene to fund its continued operations.

The Company does not believe that inflation has had a significant impact on its operations during the six-month periods ended June 30, 2004 and 2003.

Item 3. Controls and Procedures

As of the end of the most recently completed fiscal quarter, the Company's management, with the participation of the principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, and has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in Igene's internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

IGENE Biotechnology, Inc.
PART II
OTHER INFORMATION

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities.

During the six months ended June 30, 2004, 250,000 shares were issued to the Company's attorney as a bonus in connection with the settlement of the ADM matter. These shares were issued at an estimated value of \$.11 per share, aggregating to \$27,500. These costs were expensed in the second quarter as part of the ADM legal expense.

In February, 2003, Igene sold its subsidiary ProBio to Fermtech AS in exchange for aggregate consideration valued at approximately \$343,000, consisting of 7,000,000 shares of Igene common stock (including 2,000,000 shares that were placed into escrow and may be reissued to Fermtech as described below), valued for the purposes of the acquisition at \$.03 per share, plus forgiveness of approximately \$168,000 of debt that Igene owed to ProBio at the time of purchase in 2001. The escrowed 2,000,000 shares were to be earned by Fermtech based upon Mr. Benjamin's continued employment with the Company. As Mr. Benjaminsen remained employed by Igene through 2003, 1,000,000 of the escrowed shares of common stock were delivered to Fermtech. These shares were expensed in the second quarter of 2004, as a marketing expense of \$110,000. If Mr. Benjaminsen remains employed by Igene through 2004, the remaining 1,000,000 escrowed shares will be released from escrow and delivered to Fermtech.

Limitation on Payment of Dividends

Dividends on Common Stock are currently prohibited because of the preferential rights of holders of Preferred Stock. The Company has paid no cash dividends on its Common Stock in the past and does not intend to declare or pay any dividends on its Common stock in the foreseeable future.

Item 3. Defaults Upon Senior Securities.

In December 1988, as part of an overall effort to contain costs and conserve working capital, the Company suspended payment of the quarterly dividend on its preferred stock. Resumption of the dividend will require significant improvements in cash flow. Unpaid dividends cumulate for future payment or addition to the liquidation preference or redemption value of the preferred stock. As of June 30, 2004, total dividends in arrears on the Company's preferred stock total \$186,571 (\$10.08 per share) and are included in the carrying value of the redeemable preferred stock.

Item 4. Submission of Matters to a Vote of Security Holders.

At the annual meeting of stockholders held on June 8, 2004, the following matter was submitted for a stockholders' vote and was approved by the requisite number of votes: the election of five directors of the Company. The directors nominees were Stephen F. Hiu, Thomas L. Kempner, Michael G. Kimelman, Sidney R. Knafel, and Patrick F. Monahan.

Results of the voting were as follows:

| | Votes Voted <u>For</u> | Against or <u>Withheld</u> | Votes <u>Abstained</u> | Broker Non- Voted |
|---------------------------|------------------------------|-------------------------------|---------------------------|-------------------------|
| (1) Election of Directors | | | | |
| Stephen F. Hiu | 73,185,546 | 98,950 | --- | --- |
| Thomas L. Kempner | 73,185,546 | 98,950 | --- | --- |
| Michael G. Kimelman | 73,185,546 | 98,950 | --- | --- |
| Sidney R. Knafel | 73,185,546 | 98,950 | --- | --- |
| Patrick F. Monahan | 73,185,546 | 98,950 | --- | --- |

Item 6. Exhibits and Reports on Form 8-K**(a) Exhibits**

Exhibit 3.1 – Articles of Incorporation of the Registrant as amended to date, constituting Exhibit 3.1 to Registration Statement No. 333-41581 on Form SB-2 are incorporated herein by reference.

Exhibit 3.2 – Bylaws of the Registrant, constituting Exhibit 3.2 to the Registrant's Registration Statement No. 33-5441 on Form S-1, are hereby incorporated herein by reference.

Exhibit 31(a) – Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)

Exhibit 31(b) – Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)

Exhibit 32(a) – Certification of Chief Executive Officer pursuant to 18 U.S.C. SECTION 1350.

Exhibit 32(b) – Certification of Chief Financial Officer pursuant to 18 U.S.C. SECTION 1350.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IGENE Biotechnology, Inc.

(Registrant)

Date August 13, 2004

By /s/STEPHEN F. HIU
STEPHEN F. HIU
President

Date August 13, 2004

By /s/EDWARD J. WEISBERGER
EDWARD J. WEISBERGER
Chief Financial Officer

EXHIBIT INDEX

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Exhibit 32(b) – Certification of Chief Financial Officer pursuant to 18 U.S.C. SECTION 1350.

Exhibit 31(a)

CERTIFICATIONS

I, Stephen F. Hiu, certify that:

1. I have reviewed this quarterly report on Form 10 QSB of IGENE Biotechnology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 13, 2004

STEPHEN F. HIU

/s/ STEPHEN F. HIU

President

CERTIFICATIONS

I, Edward J. Weisberger, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of IGENE Biotechnology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 13, 2004

EDWARD J. WEISBERGER

/s/ EDWARD J. WEISBERGER

Chief Financial Officer

Exhibit 32(a)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the IGENE Biotechnology, Inc. (the "Company") Quarterly Report on Form 10-QSB for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen F. Hiu, President of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2004

By: /s/ STEPHEN F. HIU
STEPHEN F. HIU
President

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the IGENE Biotechnology, Inc. (the "Company") Quarterly Report on Form 10-QSB for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Weisberger, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2004

By: /s/EDWARD J. WEISBERGER
EDWARD J. WEISBERGER
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.