

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 September 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:
99,024,568 shares as of November 9, 2004.

Transitional Small Business Disclosure Format (check one):

Yes No x

FORM 10-QSB
IGENE Biotechnology, Inc.

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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

	September 30, <u>2004</u> (Unaudited)	December 31, <u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,087	\$ 63,075
Accounts receivable	199,095	156,458
Due From Joint Venture	711,879	495,183
Prepaid expenses and other current assets	<u>19,287</u>	<u>43,675</u>
	942,348	758,391
OTHER ASSETS		
Property and equipment, net	134,495	148,931
Loans receivable from manufacturing agent	118,965	122,964
Investment in unconsolidated joint venture	8,737,506	11,391,506
Other assets	<u>5,125</u>	<u>4,886</u>
TOTAL ASSETS	<u><u>\$ 9,938,439</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)

	September 30, 2004 (Unaudited)	December 31, 2003
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 207,705	\$ 185,862
Equipment lease payable	<u>---</u>	<u>1,498</u>
TOTAL CURRENT LIABILITIES	207,705	187,360
LONG-TERM LIABILITIES		
Notes payable	5,842,267	5,842,767
Convertible debentures	4,624,212	4,814,212
Accrued interest	3,968,070	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 \$ 18.24 and \$17.44, respectively. Authorized 1,312,500 shares, issued 18,509 and 25,605 respectively	<u>337,604</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>14,979,858</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 99,024,568 and 92,747,469 shares, respectively.	990,246	927,475
Additional paid-in capital	36,813,996	34,471,490
Deficit	<u>(42,845,661)</u>	<u>(39,319,643)</u>
TOTAL STOCKHOLDERS' DEFICIT	<u>(5,041,419)</u>	<u>(3,920,678)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 9,938,439</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)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2004	2003	2004	2003
<u>REVENUE</u>				
Sales - AstaXin®	\$ ---	\$ ---	\$ ---	\$ 463,486
Cost of sales – AstaXin®	---	---	---	444,946
GROSS PROFIT	---	---	---	18,540
<u>OPERATING EXPENSES</u>				
Marketing and selling	45,536	57,265	254,803	277,120
Research, development and pilot plant	227,103	198,195	631,035	576,596
General and administrative	154,077	172,804	514,905	557,131
Litigation expense	---	75,610	40,580	75,610
Operating expenses reimbursed by Joint Venture	(420,519)	(327,310)	(1,163,694)	(891,691)
TOTAL OPERATING EXPENSES	6,197	176,564	277,629	594,766
OPERATING LOSS	(6,197)	(176,564)	(277,629)	(576,226)
EQUITY IN LOSS OF UNCONSOLIDATED SUBSIDIARY	(892,000)	(222,000)	(2,654,000)	(569,000)
INTEREST EXPENSE	(191,471)	(233,539)	(594,389)	(616,671)
NET LOSS FROM CONTINUING OPERATIONS	(1,089,668)	(632,103)	(3,526,018)	(1,761,897)
<u>DISCONTINUED OPERATIONS</u>				
Gain on disposal of discontinued operations	---	---	---	237,437
NET LOSS	<u>\$ (1,089,668)</u>	<u>\$ (632,103)</u>	<u>\$ (3,526,018)</u>	<u>\$ (1,524,460)</u>
BASIC AND DILUTED NET LOSS				
PER COMMON SHARE				
FROM CONTINUING OPERATIONS	<u>\$ (0.01)</u>	<u>(0.01)</u>	<u>\$ (0.04)</u>	<u>(0.02)</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>\$ (0.01)</u></u>	<u><u>(0.01)</u></u>	<u><u>\$ (0.04)</u></u>	<u><u>(0.02)</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	---	12,290
Conversion of preferred stock to common	550	(9,416)
Exercise of warrants	---	---
Net loss for the nine months ended September 30, 2003	<u>---</u>	<u>---</u>
Balance at September 30, 2003	<u>213,105</u>	<u>\$1,950,648</u>
Balance at January 1, 2004	213,105	\$2,104,745
Cumulative undeclared dividends on redeemable preferred stock	---	10,019
Conversion of preferred stock to common	(194,596)	(1,777,160)
Exercise of warrants	---	---
Net loss for the nine months ended September 30, 2004	<u>---</u>	<u>---</u>
Balance at September 30, 2004	<u>18,509</u>	<u>\$ 337,604</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	---	---	(12,674)	---	(12,674)
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	2,066,738	20,666	70,896	---	91,562
Net loss for the nine months ended September 30, 2003	<u>---</u>	<u>---</u>	<u>---</u>	<u>\$(1,524,460)</u>	<u>\$(1,524,460)</u>
Balance at September 30, 2003	<u>88,010,484</u>	<u>\$ 880,103</u>	<u>\$ 34,288,957</u>	<u>\$(38,644,962)</u>	<u>\$ (3,475,902)</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	---	---	(10,019)	---	(10,019)
Conversion of redeemable preferred stock	389,192	3,892	1,773,268	---	1,777,160
Shares issued for manufacturing agreement	2,382,907	23,829	266,682	---	290,511
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 nine months ended September 30, 2004	<u>---</u>	<u>---</u>	<u>---</u>	<u>\$(3,526,018)</u>	<u>\$(3,526,018)</u>
Balance at September 30, 2004	<u>99,024,568</u>	<u>\$ 990,246</u>	<u>\$ 36,813,996</u>	<u>\$(42,845,661)</u>	<u>\$ (5,041,419)</u>

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

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

	<u>Nine months ended</u>	
	<u>September 30,</u> <u>2004</u>	<u>September 30,</u> <u>2003</u>
Cash flows from operating activities		
Net loss	\$ (3,526,018)	\$ (1,524,460)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	14,436	16,596
Amortization	---	54,729
Issuance of Shares to Fermtech per ProBio agreement	110,000	---
Manufacturing cost paid in shares of common stock	290,511	91,562
Issuance of common stock for legal services	27,500	---
Equity in loss of unconsolidated subsidiary	2,654,000	569,000
Decrease (increase) in:		
Accounts receivable	(42,637)	125,033
Inventory	---	374,709
Due from Joint Venture	(216,696)	---
Prepaid expenses and other current assets	28,148	264,478
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>591,641</u>	<u>(199,703)</u>
Net cash used in operating activities	<u>(69,115)</u>	<u>(228,056)</u>
Cash flows from investing activities		
Capital (expenditures) and sales	<u>---</u>	<u>7,194</u>
Net cash provided by investing activities	<u>---</u>	<u>7,194</u>
Cash flows from financing activities		
Proceeds (repayment) from borrowing	(125)	(250,000)
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>(250,000)</u>
Net decrease in cash and cash equivalents	(50,988)	(470,862)
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>\$ 12,087</u>	<u>\$ 26,849</u>
<u>Supplementary disclosure and cash flow information</u>		
Cash paid for interest	\$ 24,347	\$ 72,964
Cash paid for income taxes	---	---

See Note (3) 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 September 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. Igene had operational subsidiaries in Norway and Chile through the first quarter of 2003. 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 the contribution of certain of its facility assets currently used in citric acid production. Commercial production is commencing in the calendar year 2004.

(3) Noncash investing and financing activities

During the nine months ended September 30, 2004, 194,596 shares of redeemable preferred stock, with a recorded aggregate value of \$1,777,159, 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 nine months ended September 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 nine months ended September 30, 2004, 250,000 shares were issued to the Company's attorney 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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2004 and 2003, Fermic, Igene's manufacturing agent, earned 2,382,907 and 2,066,738 shares, respectively, of common stock as part of the manufacturing agreement. Fermic earns 2,250 shares of common stock for each kilogram of pure Astaxanthin produced and delivered as part of the manufacturing 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 2,382,907 shares were earned at an average price of \$.122 per share for 2004, and 2,066,738 shares were earned at an average price of \$.044 per share for 2003. Through September 30, 2004, 13,472,129 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 nine months ended September 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 \$10,020 and \$12,674, respectively, which has been removed from paid-in capital and included in the carrying value of the redeemable preferred stock.

On March 18, 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 that was then used to purchase certain plant assets, 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. Benjaminsen's continued employment with

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

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. The expenses incurred by the Company related to the delivery of the remaining escrowed shares will be determined by the market value of the stock at the time of delivery.

During the nine months ended September 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, that was then used to purchase certain plant assets, 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 September, 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 September 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 September 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 September 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 September 30, 2004 and 2003, 66,427,651 shares of authorized but unissued common stock were reserved for the conversion of outstanding convertible promissory notes in the aggregate amount of \$3,414,212 held by directors of the Company.

As of September 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 in the aggregate amount of \$810,00 and \$1,000,000, respectively, issued as part of the purchase of ProBio.

As of September 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 September 30, 2004 and 2003, 6,527,871 and 9,629,997 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 nine-month periods ended September 30, 2004 and 2003, is based on 95,620,781 and 89,925,204 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 \$10,019 and \$12,290 for the nine months ended September 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 \$42,800,000 from inception to September 30, 2004 and its liabilities and redeemable preferred stock exceeded its assets by approximately \$5,041,000 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 through its joint venture with Tate, 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 goals 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 September 30:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net loss:				
As reported	\$ (1,089,668)	\$ (632,103)	\$ (3,526,018)	\$ (1,524,460)
Less pro forma stock-based employee compensation expense determined under fair value based method net of related tax effects	<u>(1,317,790)</u>	<u>(159,578)</u>	<u>(1,648,237)</u>	<u>(423,756)</u>
Net loss	<u>\$ (2,407,458)</u>	<u>\$ (791,681)</u>	<u>\$ (5,174,255)</u>	<u>\$ (1,948,216)</u>
Net loss per Share:				
Basic - as reported	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.02)
Basic - pro forma	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.02)
Diluted - as reported	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.02)
Diluted - pro forma	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.02)

(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 nine months ended September 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>September 30, 2004</u>	Nine Months Ended <u>September 30, 2004</u>
Net Sales	\$ 1,662,000	\$ 3,668,000
Less: manufacturing cost	<u>(2,394,000)</u>	<u>(6,382,000)</u>
Gross Profit	(732,000)	(2,714,000)
Less: selling, general and admin	<u>(977,000)</u>	<u>(2,509,000)</u>
Operating Loss	(1,709,000)	(5,233,000)
Interest Expense	<u>(75,000)</u>	<u>(85,000)</u>
Loss before tax	<u>\$ (1,784,000)</u>	<u>\$ (5,308,000)</u>
50% equity interest Igene	<u>\$ (892,000)</u>	<u>\$ (2,654,000)</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 IDENTIFIED IN THE COMPANY'S FILING WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION.

Overview of Financial Position

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

- During the nine months ended September 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 nine months ended September 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 \$591,641 were a source of cash. This was reduced by increases in amounts due from the Joint Venture of \$313,934 and increases in accounts receivable of \$42,637.
- The carrying value of redeemable preferred stock was increased and paid-in capital available to common shareholders was decreased by \$10,019 in 2004 and \$12,290 in 2003, reflecting cumulative unpaid dividends on redeemable preferred stock.
- Proceeds of employee stock options provided \$19,750 in cash flows.

During 2004, the Joint Venture has been in the process of commissioning the production facility. Through the period this plant has been in the start-up phase. This has resulted in the reported losses for the quarter and year-to-date 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 September 30, 2004, total dividends in arrears on Igene's preferred stock total \$189,532 (\$10.24 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 United States 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 Joint Venture. Therefore, Igene recorded no sales of AstaXin® during the nine months ended September 30, 2004. Sales of AstaXin® during the nine-month period ended September 30, 2003 were \$463,486. Sales activity for the Joint Venture are reported 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 Joint Venture. Igene reported no gross profit on sales of AstaXin® for the nine months ended September 30, 2004. Gross profit on sales of AstaXin® was \$18,540 for the nine month period ended September 30, 2003. Gross profit was 4% of sales for the nine months ended September 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 through the Joint Venture, 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 nine month period ended September 30, 2003, was \$444,946. No cost of sales were recorded for the nine month period ended September 30, 2004.

Marketing and selling expenses

For the quarters ended September 30, 2004 and 2003, Igene recorded marketing and selling expense in the amount of \$45,536 and \$57,265, respectively, a decrease of \$11,729 or 20%. For the nine months ended September 30, 2004 and 2003, Igene recorded marketing and selling expense in the amount of \$254,803 and \$277,120, respectively, a decrease of \$22,317 or 8%. 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 the removal of the ProBio marketing and 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 marketing and selling expense increased during the second quarter 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 once 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 September 30, 2004 and 2003, Igene recorded research and development costs in the amount of \$227,103 and \$198,195, respectively, an increase of \$28,908 or 15%. For the nine months ended September 30, 2004 and 2003, Igene recorded research and development costs in the amount of \$631,035 and \$576,596, respectively, an increase of \$54,439 or 9%. 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 making 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
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(continued)

Operating expenses

General and administrative expenses for the quarter ended September 30, 2004 and 2003 were \$154,077 and \$172,804 respectively, a decrease of \$18,727 or 11%. General and administrative expenses for the nine months ended September 30, 2004 and 2003 were \$514,905 and \$557,131 respectively, a decrease of \$42,226 or 7.6%. 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 these costs are 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 \$40,580 for the nine months ended September 30, 2004. During the nine months ended September 30, 2004, 250,000 shares were issued to the Company's attorney 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 September 30, 2004 and 2003 was \$191,472 and \$233,539, respectively, a decrease of \$42,067 or 18%. For the nine months ended September 30, 2004 and 2003, interest expense was \$594,389 and \$616,671, respectively, a decrease of \$22,282 or 4%. 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 nine month ended September 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>September 30, 2004</u>	Nine Months Ended <u>September 30, 2004</u>
Net Sales	\$ 1,662,000	\$ 3,668,000
Less: manufacturing cost	<u>(2,394,000)</u>	<u>(6,382,000)</u>
Gross Profit	(732,000)	(2,714,000)
Less: selling, general and admin	<u>(977,000)</u>	<u>(2,509,000)</u>
Operating Loss	(1,709,000)	(5,233,000)
Interest Expense	<u>(75,000)</u>	<u>(85,000)</u>
Loss before tax	<u>\$ (1,784,000)</u>	<u>\$ (5,308,000)</u>
50% equity interest Igene	<u>\$ (892,000)</u>	<u>\$ (2,654,000)</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 September 30, 2004, Igene's portion of the Joint Venture loss was \$892,000. The loss was a result of a 50% interest in the following: Gross profit (loss) for the quarter was \$(732,000) on sales of \$1,662,000, less manufacturing cost of \$2,394,000. Selling and general and administrative expenses for the period were \$977,000 and interest income (expense) was \$(75,000). The resulting loss before tax was \$1,784,000. For the quarter ended September 30, 2004, Igene's 50% portion of the Joint Venture loss was \$892,000.

During 2004, the Joint Venture is in the process of commissioning the Selby Production facility. Through the period this plant has been in the start-up phase. This has resulted in the reported losses for the quarter and year to date 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
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(continued)

Net loss and basic and diluted net loss per common share

As a result of the foregoing, the Company reported net losses of \$1,089,668 and \$632,103, respectively, for the quarters ended September 30, 2004 and 2003, an increase in the loss of \$457,565 or 72%. This represents a loss of \$.01 per basic and diluted common share in the quarters ended September 30, 2004 and 2003. The weighted average number of shares of common stock outstanding of 97,103,270 and 90,991,535, for the quarters ended September 30, 2004 and 2003, respectively, increased by 6,111,735 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, 3,102,323 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 September 30, 2004, Igene had working capital of \$734,643, and cash and cash equivalents of \$12,087. Currently Igene is also funded by research and development reimbursements from the Joint Venture.

Cash used by operating activities during the nine-month period ended September 30, 2004 and 2003 amounted to \$69,115 and \$228,056, respectively, a decrease in cash used of \$158,941.

Cash of \$7,194 was provided by investing activities on asset sales for the nine months ended September 30, 2003, and no cash was provided for the nine-month period ended September 30, 2004.

Cash was used by financing activities in repayment of loans in the amount of \$250,000 for the nine-month period ended September 30, 2003, as opposed to the \$18,127 provided by financing activities for the nine-month period ended September 30, 2004. Financing activities in this period 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. Funding is also 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, if any, 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 nine-month periods ended September 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 nine months ended September 30, 2004, 250,000 shares were issued to the Company's attorney 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. The cost was 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 September 30, 2004, total dividends in arrears on the Company's preferred stock total \$189,532 (\$10.24 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:

	<u>Votes For</u>	<u>Against or Withheld</u>	<u>Votes Abstained</u>	<u>Broker Non- Votes</u>
(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	<u>November 11, 2004</u>	By	<u>/s/STEPHEN F. HIU</u> STEPHEN F. HIU President
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Date	<u>November 11, 2004</u>	By	<u>/s/EDWARD J. WEISBERGER</u> EDWARD J. WEISBERGER Chief Financial Officer
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EXHIBIT INDEX

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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.

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: November 11, 2004

STEPHEN F. HIU

/s/ STEPHEN F. HIU

President

Exhibit 31(b)

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: November 11, 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 September 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: November 11, 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 September 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: November 11, 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.