

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-21617

THE QUIGLEY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Nevada

23-2577138

(State or Other Jurisdiction of
Incorporation or Organization)

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

(MAILING ADDRESS: PO Box 1349, Doylestown, PA 18901.)

KELLS BUILDING, 621 SHADY RETREAT ROAD, DOYLESTOWN, PENNSYLVANIA 18901

(Address of Principal Executive Offices)

(Zip Code)

(215) 345-0919

(Registrant's Telephone Number, Including Area Code)

N/A

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

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer. See definition of "accelerated
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

As of July 28, 2006, there were 12,534,633 shares of common stock, \$.0005 par
value per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE QUIGLEY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 2006 (Unaudited)	December 31, 2005
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,060,396	\$ 16,885,170
Accounts receivable (net of doubtful accounts of \$354,366 and \$354,972)	1,180,618	7,880,140
Inventory	4,796,541	3,900,064
Prepaid expenses and other current assets	1,318,112	1,582,851
	-----	-----
TOTAL CURRENT ASSETS	23,355,667	30,248,225
	-----	-----
PROPERTY, PLANT AND EQUIPMENT - NET	5,229,805	5,585,793
	-----	-----
OTHER ASSETS:		
Goodwill	30,763	30,763
Other assets	90,285	110,858
	-----	-----
TOTAL OTHER ASSETS	121,048	141,621
	-----	-----
TOTAL ASSETS	\$ 28,706,520	\$ 35,975,639
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of debt	--	\$ 428,571
Accounts payable	524,882	771,819
Accrued royalties and commissions	2,815,386	3,301,598
Accrued advertising	182,538	2,860,414
Other current liabilities	2,293,762	2,203,561
	-----	-----
TOTAL CURRENT LIABILITIES	5,816,568	9,565,963
	-----	-----
LONG-TERM DEBT	--	1,035,715
MINORITY INTEREST	59,784	54,314
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS' EQUITY:		
Common stock, \$.0005 par value; authorized 50,000,000; Issued: 17,180,686 and 16,360,524 shares	8,590	8,180
Additional paid-in-capital	36,987,528	35,404,803
Retained earnings	11,022,209	15,094,823
Less: Treasury stock, 4,646,053 and 4,646,053 shares, at cost	(25,188,159)	(25,188,159)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	22,830,168	25,319,647
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 28,706,520	\$ 35,975,639
	=====	=====

See accompanying notes to condensed consolidated financial statements

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
NET SALES	\$ 6,182,467	\$ 8,844,173	\$ 16,448,505	\$ 20,597,443
COST OF SALES	3,873,052	5,810,652	8,826,506	11,860,950
GROSS PROFIT	2,309,415	3,033,521	7,621,999	8,736,493
OPERATING EXPENSES:				
Sales and marketing	1,078,649	1,066,759	3,513,574	2,901,590
Administration	3,100,378	2,986,507	6,806,139	5,981,276
Research and development	857,642	840,659	1,642,165	1,908,962
TOTAL OPERATING EXPENSES	5,036,669	4,893,925	11,961,878	10,791,828
LOSS FROM OPERATIONS	(2,727,254)	(1,860,404)	(4,339,879)	(2,055,335)
OTHER INCOME (EXPENSE)				
Interest and other income	197,534	93,806	377,508	163,295
Interest expense	--	(23,812)	(21,644)	(52,865)
TOTAL OTHER INCOME (EXPENSE)	197,534	69,994	355,864	110,430
LOSS FROM OPERATIONS BEFORE TAXES	(2,529,720)	(1,790,410)	(3,984,015)	(1,944,905)
INCOME TAXES	88,599	--	88,599	--
NET LOSS	(\$ 2,618,319)	(\$ 1,790,410)	(\$ 4,072,614)	(\$ 1,944,905)
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	(\$ 0.21)	(\$ 0.15)	(\$ 0.34)	(\$ 0.17)
Diluted	(\$ 0.21)	(\$ 0.15)	(\$ 0.34)	(\$ 0.17)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	12,388,718	11,655,995	12,051,429	11,655,396
Diluted	12,388,718	11,655,995	12,051,429	11,655,396

See accompanying notes to condensed consolidated financial statements

THE QUIGLEY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	June 30, 2006	June 30, 2005
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(\$ 633,331)	\$ 893,351
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(310,292)	(106,793)
NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	118,849	(1,174,011)
NET DECREASE IN CASH	(824,774)	(387,453)
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD	16,885,170	14,366,441
CASH & CASH EQUIVALENTS, END OF PERIOD	\$16,060,396	\$13,978,988

THE QUIGLEY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - ORGANIZATION AND BUSINESS

The Quigley Corporation (the "Company"), organized under the laws of the state of Nevada, is engaged in the development, manufacturing, and marketing of homeopathic and health products that are being offered to the general public and the research and development of potential prescription products. The Company is organized into four business segments: Cold Remedy, Health and Wellness, Contract Manufacturing and Ethical Pharmaceutical. For the fiscal periods presented, the majority of the Company's revenues have come from the Company's Cold Remedy and Health and Wellness business segments.

The Company's principal cold-remedy product, Cold-Eeze(R), a zinc gluconate glycine formulation (ZIGG(TM)) is an over-the-counter consumer product used to reduce the duration and severity of the common cold. The lozenge form of the product is manufactured by Quigley Manufacturing Inc. ("QMI"), a wholly owned subsidiary of the Company, which was formed following the acquisition of certain assets and assumption of certain liabilities of JoEl, Inc., the contract manufacturer of the lozenge product prior to October 1, 2004.

Darius International Inc. ("Darius"), a wholly owned subsidiary of the Company, is a direct selling organization constituting the Health and Wellness segment that was formed in January 2000 to introduce new products to the marketplace through a network of independent distributor representatives.

In January 2001, the Company formed an Ethical Pharmaceutical segment which is now Quigley Pharma Inc. ("Pharma"), a wholly-owned subsidiary of the Company. The result of that segment's research and development activity may enable the Company to diversify into the prescription drug market.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated. Effective March 31, 2004, the financial statements include consolidated variable interest entities ("VIEs") of which the Company is the primary beneficiary (see discussion in Note 3, "Variable Interest Entity").

These financial statements have been prepared by management without audit and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position, consolidated results of operations and consolidated cash flows, for the periods indicated, have been made. The results of operations for the three and six month periods ended June 30, 2006 and 2005 are not necessarily indicative of the results to be expected for the entire year or any other period.

USE OF ESTIMATES

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. In connection with the preparation of the consolidated financial statements, it is required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. These assumptions, estimates and judgments are based on historical experience, current trends and other factors that management believes to be relevant at the time the consolidated financial statements are prepared. Management reviews the accounting policies, assumptions, estimates and judgments on a quarterly basis to ensure the financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from these assumptions and estimates, and such differences could be material.

The Company is organized into four different but related business segments, Cold-Remedy, Health and Wellness, Contract Manufacturing and Ethical Pharmaceutical. When providing for the appropriate sales returns, allowances, cash discounts and cooperative advertising costs, each segment applies a uniform and consistent method for making certain assumptions for estimating these provisions that are applicable to each specific segment. Traditionally, these provisions are not material to reported revenues in the Health and Wellness and Contract Manufacturing segments and the Ethical Pharmaceutical segment does not

have any revenues.

Provisions to these reserves within the Cold Remedy segment include the use of such estimates, which are applied or matched to the current sales for the period presented. These estimates are based on specific customer tracking and an overall historical experience to obtain an applicable effective rate. Estimates for sales returns are tracked at the specific customer level and are tested on an annual historical basis, and reviewed quarterly, as is the estimate for cooperative advertising costs. Cash discounts follow the terms of sales and are taken by virtually all customers. Additionally, the monitoring of current occurrences, developments by customer, market conditions and any other occurrences that could affect the expected provisions for any future returns or allowances, cash discounts and cooperative advertising costs relative to net sales for the period presented are also performed.

CASH EQUIVALENTS

The Company considers all highly liquid investments with an initial maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents include cash on hand and monies invested in money market funds. The carrying amount approximates the fair market value due to the short-term maturity of these investments.

INVENTORY VALUATION

Inventory is valued at the lower of cost, determined on a first-in, first-out basis (FIFO), or market. Inventory items are analyzed to determine cost and the market value and appropriate valuation reserves are established. The consolidated financial statements include a specific reserve for excess or obsolete inventory of \$393,862 and \$369,508 as of June 30, 2006 and December 31, 2005, respectively. Inventories included raw material, work in progress and packaging amounts of approximately \$1,127,000 and \$1,340,000 at June 30, 2006 and December 31, 2005, respectively, with the remainder comprising finished goods.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. The Company uses a combination of straight-line and accelerated methods in computing depreciation for financial reporting purposes. The annual provision for depreciation has been computed in accordance with the following ranges of estimated asset lives: building and improvements - twenty to thirty nine years; machinery and equipment - five to seven years; computer software - three years; and furniture and fixtures - seven years.

GOODWILL AND INTANGIBLE ASSETS

Goodwill is not amortized but reviewed for impairment on an annual basis or when events and circumstances indicate the carrying amount may not be recoverable.

CONCENTRATION OF RISKS

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and trade accounts receivable.

The Company maintains cash and cash equivalents with several major financial institutions. Since the Company maintains amounts in excess of guarantees provided by the Federal Depository Insurance Corporation, the Company performs

periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

Trade accounts receivable potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral. It is not anticipated that any one customer will exceed 10% of consolidated sales in 2006. The Company's broad range of customers includes many large wholesalers, mass merchandisers and multi-outlet pharmacy chains, five of which account for a significant percentage of sales volume, representing 15% of sales volume for each of the three month periods ended June 30, 2006 and 2005 and 21% and 19% for the six month periods ended June 30, 2006 and 2005, respectively. Customers comprising the five largest accounts receivable balances represented 35% and 47% of total trade receivable balances at June 30, 2006 and December 31, 2005, respectively. During the six month periods ended June 30, 2006 and 2005, approximately 13% and 10%, respectively, of the Company's net sales were related to international markets.

The Company's revenues are currently generated from the sale of the Cold-Remedy products which approximated 41% and 38% of total revenues in the six month periods ended June 30, 2006 and 2005, respectively. The Health and Wellness segment approximated 53% and 50%, respectively, for the six month periods. The Contract Manufacturing segment approximated 6% and 12%, respectively, for the respective six month periods.

Raw materials used in the production of the products are available from numerous

sources. Raw materials for the Cold-Eeze(R) lozenge product is currently procured from a single vendor in order to secure purchasing economies. In a situation where this one vendor is not able to supply QMI with the ingredients, other sources have been identified. Should these product sources terminate or discontinue for any reason, the Company has formulated a contingency plan in order to prevent such discontinuance from materially affecting the Company's operations. Any such termination may, however, result in a temporary delay in production until the replacement facility is able to meet the Company's production requirements.

Darius' products for resale can be sourced from several suppliers. In the event that such sources were no longer in a position to supply Darius with products, other vendors have been identified as reliable alternatives with minimal adverse loss of business.

LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through future cash flows. If it is determined that an impairment loss has occurred based on the expected cash flows compared to the related asset value, an impairment loss is recognized in the Statement of Operations.

REVENUE RECOGNITION

Sales are recognized at the time ownership is transferred to the customer, which for the Cold Remedy segment is the time the shipment is received by the customer and for both the Health and Wellness segment and the Contract Manufacturing segment, when the product is shipped to the customer. Revenue is reduced for trade promotions, estimated sales returns, cash discounts and other allowances in the same period as the related sales are recorded. The Company makes estimates of potential future product returns and other allowances related to current period revenue. The Company analyzes historical returns, current trends, and changes in customer and consumer demand when evaluating the adequacy of the sales returns and other allowances. The consolidated financial statements include reserves of \$360,000 for future sales returns and \$394,000 for other allowances as of June 30, 2006 and \$634,580 and \$533,250 at December 31, 2005, respectively. The 2006 and 2005 reserve balances include a remaining returns provision at June 30, 2006 and December 31, 2005 of approximately \$129,000 and \$184,000, respectively, in the event of future product returns following the discontinuation of the Cold-Eeze(R) Cold Remedy Nasal Spray product in September 2004. The reserves also include an estimate of the uncollectability of accounts receivable resulting in a reserve of \$354,366 and \$354,972 at June 30, 2006 and December 31, 2005, respectively.

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COST OF SALES

For the Cold Remedy Segment, in accordance with contract terms, payments calculated based upon net sales collected to the patent holder of the Cold-Eeze(R) formulation and payments to the corporation founders and developers of the final saleable Cold-Eeze(R) product amounting to \$317,779 and \$722,543 respectively, for the six month periods ended June 30, 2006 and 2005 are presented in the financial statements as cost of sales (see also Note 4). Such payments to the founders terminated in May 2005 in accordance with contractual agreements.

In the Health and Wellness Segment, agreements with Independent Distributor Representatives ("IR's") require payments to them to be calculated based upon net commissionable sales of other IR's in their down-line and not on any of their individual purchases of products including not taking title to the products that are sold by other IR's. In accordance with EITF 01-9, such payments to the IR's do not qualify as a reduction of the selling price as these payments are not offered as an allowance or as a percentage rebate of direct purchases made, and the IR's are not offered any cooperative advertising incentives of any type. Such payments, among other factors, are related to expand the cycle of additional IR's and for maintaining the distribution channel for this segment's products.

Accordingly, such distribution payments amounting to \$1,849,324 and \$2,392,747 for the three month periods ended June 30, 2006 and 2005, respectively, and \$3,902,038 and \$4,685,940 for the six month periods ended June 30, 2006 and 2005, respectively, are presented in the financial statements as cost of sales.

OPERATING EXPENSES

Agreements relating to the Cold Remedy segment with a major national sales brokerage firm are for this firm to sell the manufactured Cold-Eeze(R) product to our customers. Such related costs are presented in the financial statements as selling expenses.

In the Health and Wellness Segment, the Company includes payments in accordance with agreements with the former owner of its acquired proprietary products, to be calculated based upon net sales collected. These agreements provide for exclusivity, consulting, marketing presentations, confidentiality and non-compete arrangements with such payments being classified as administration

expense.

SHIPPING AND HANDLING

Product sales relating to Health and Wellness products carry an additional identifiable shipping and handling charge to the purchaser, which is classified as revenue. For the Cold Remedy and Contract Manufacturing segments, such costs are included as part of the invoiced price. In all cases costs related to this revenue are recorded in cost of sales.

STOCK COMPENSATION

Stock options and warrants for purchase of the Company's common stock have been granted to both employees and non-employees since the date the Company became publicly traded. Options and warrants are exercisable during a period determined by the Company, but in no event later than ten years from the date granted.

As of January 1, 2006, the Company adopted SFAS 123R, "SHARED BASED PAYMENT". The adoption of SFAS 123R did not have an impact on the Company's financial position or results of operations in the 2006 periods reported.

No stock options were granted in the six month periods ended June 30, 2006 and 2005.

ADVERTISING

Advertising costs are expensed within the period in which they are utilized. Advertising expense is comprised of media advertising, presented as part of sales and marketing expense; co-operative advertising, which is accounted for as a deduction from sales; and bonus product, which is accounted for as part of cost of sales. Advertising costs incurred for the three month periods ended June 30, 2006 and 2005 were \$380,071 and \$812,497, respectively; the six month cost

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for the periods ended June 30, 2006 and 2005 were \$2,415,355 and \$2,507,329, respectively. Included in prepaid expenses and other current assets was zero and \$96,050 at June 30, 2006 and December 31, 2005, respectively, relating to prepaid advertising expenses.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to operations in the period incurred. Expenditures for the three month periods ended June 30, 2006 and 2005 were \$857,642 and \$840,659, respectively; the six month costs for the periods ended June 30, 2006 and 2005 were \$1,642,165 and \$1,908,962, respectively. Principally, research and development costs are related to Pharma's study activities and costs associated with Cold-Eeze(R) products.

INCOME TAXES

The Company utilizes the asset and liability approach which requires the recognition of deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law or rates. Until sufficient taxable income to offset the temporary timing differences attributable to operations and the tax deductions attributable to option, warrant and stock activities are assured, a valuation allowance equaling the total deferred tax asset is being provided. See Note 9 - Income Taxes for further discussion.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable and accounts payable are reflected in the consolidated financial statements at carrying value which approximates fair value because of the short-term maturity of these instruments. The fair value of long-term debt was approximately equivalent to its carrying value due to the fact that the interest rates then available to the Company for debt with similar terms was approximately equal to the interest rates for its existing debt. Determination of the fair value of related party payables is not practicable due to their related party nature.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS Statement No. 109, ACCOUNTING FOR INCOME TAXES. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company beginning January 1, 2007. The Company has not yet evaluated the effect FIN 48 will have on its financial statements and related disclosures.

NOTE 3 - VARIABLE INTEREST ENTITY

In December 2003, the Financial Accounting Standards Board (FASB or the "Board") issued FASB Interpretation No. 46 (revised December 2003), CONSOLIDATION OF VARIABLE INTEREST ENTITIES (FIN 46R), to address certain implementation issues. FIN 46R varies significantly from FASB Interpretation No. 46, CONSOLIDATION OF VARIABLE INTEREST ENTITIES ("VIE") (FIN 46), which it supersedes. FIN 46R requires the application of either FIN 46 or FIN 46R by "Public Entities" to all Special Purpose Entities ("SPEs") at the end of the first interim or annual reporting period ending after December 15, 2003. FIN 46R is applicable to all non-SPEs created prior to February 1, 2003 by Public Entities that are not small business issuers at the end of the first interim or annual reporting period ending after March 15, 2004. Effective March 31, 2004, the Company adopted FIN 46R for VIE's formed prior to February 1, 2003. The Company has determined that Scandasytems, a related party, qualifies as a variable interest entity and the Company has consolidated Scandasytems beginning with the quarter ended March 31, 2004. Due to the fact that the Company has no long-term contractual commitments or guarantees, the maximum exposure to loss is insignificant. As a result of consolidating the VIE of which the Company is the primary beneficiary, the Company recognized a minority interest of approximately \$59,784 and \$54,314 on the Consolidated Balance Sheets at June 30, 2006 and December 31, 2005, respectively, which represents the difference between the assets and the liabilities recorded upon the consolidation of the VIE.

The liabilities recognized as a result of consolidating the VIE do not represent additional claims on the Company's general assets. Rather, they represent claims against the specific assets of the consolidated VIE. Conversely, assets recognized as a result of consolidating this VIE do not represent additional assets that could be used to satisfy claims against the Company's general assets. Reflected on the Company's Consolidated Balance Sheets at June 30, 2006 and December 31, 2005, respectively, are \$62,829 and \$61,844 of VIE assets,

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representing all of the assets of the VIE. The VIE assists the Company in acquiring licenses and with research and development activities in certain countries.

NOTE 4 - PATENT RIGHTS AND RELATED ROYALTY COMMITMENTS

The Company has maintained a separate representation and distribution agreement relating to the development of the zinc gluconate glycine product formulation. In return for exclusive distribution rights, the Company must pay the developer a 3% royalty and a 2% consulting fee based on sales collected, less certain deductions, throughout the term of this agreement, which is due to expire in 2007. However, the Company and the developer are in litigation and as such no potential offset from such litigation for these fees have been recorded. A founder's commission totaling 5%, on sales collected, less certain deductions, has been paid to two of the officers, who are also directors and stockholders of the Company, and whose agreements expired in 2005 (see Note 11).

The expenses for the respective periods relating to such agreements amounted to \$75,265 and \$187,441, for the three month periods ended June 30, 2006 and 2005, respectively; the six month costs for the period ended June 30, 2006 and 2005 were \$317,779 and \$722,543, respectively. Amounts accrued for these expenses at June 30, 2006 and December 31, 2005 were \$2,371,527 and \$2,077,411, respectively.

Amounts accrued for non-related party royalties and sales commissions in the balance sheets at June 30, 2006 and December 31, 2005, were \$2,815,386 and \$3,301,598, respectively.

NOTE 5 - DEBT

In connection with the Company's acquisition of certain assets of JoEl, Inc. in October 2004, the Company entered into a term loan in the amount of \$3 million payable to PNC Bank, N.A. which was collateralized by mortgages on real property located in Lebanon and Elizabethtown, Pennsylvania. The Company could elect interest rate options at either the Prime Rate or LIBOR plus 200 basis points. The loan was payable in eighty-four equal monthly principal payments of \$35,714 that commenced on November 1, 2004. In April 2006, the Company prepaid the total outstanding balance of approximately \$1.3 million. The Company was in compliance with all related loan covenants for the duration of the loan.

NOTE 6 - OTHER CURRENT LIABILITIES

Included in other current liabilities are \$751,076 and \$923,411 related to accrued compensation at June 30, 2006 and December 31, 2005, respectively.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Certain operating leases for office and warehouse space maintained by the Company resulted in rent expense for the three month periods ended June 30, 2006 and 2005 of \$85,003, and \$54,481, respectively; the six month costs for the periods ended June 30, 2006 and 2005 were \$149,591 and \$109,797, respectively. The Company has approximate future obligations over the next five years as follows:

Year	Research and Development	Property and Other Leases	Advertising	Other	Total
2006	\$2,510,891	\$ 96,299	\$ 200,000	\$ 28,063	\$2,835,253
2007	233,325	181,129	200,000	--	614,454
2008	--	172,617	--	--	172,617
2009	--	100,694	--	--	100,694
2010	--	--	--	--	--
2011	--	--	--	--	--
Total	\$2,744,216	\$ 550,739	\$ 400,000	\$ 28,063	\$3,723,018

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Additional advertising and research and development costs are expected to be incurred during the remainder of 2006.

The Company has an agreement with the former owners of the Utah based direct marketing and selling company, whereby the former owners receive payments, currently totaling 5% of net sales collected, for product exclusivity, consulting, marketing presentations, confidentiality and non-compete arrangements. However, the Company and the former owners are in litigation and as such no potential offset from such litigation for these fees have been recorded. Amounts paid or payable under such agreement during the three month periods ended June 30, 2006 and 2005, were \$167,448 and \$217,472, respectively; the six month costs for periods ended June 30, 2006 and 2005 were \$358,087 and \$416,811, respectively. Amounts payable under such agreement at June 30, 2006 and December 31, 2005 were \$282,201 and \$58,597, respectively.

The Company has several licensing and other contractual agreements, see Note 4.

INNERLIGHT INC. VS. THE MATRIX GROUP, LLC

(FOURTH JUDICIAL DISTRICT COURT, UTAH COUNTY, STATE OF UTAH)

On March 13, 2006 Innerlight Inc. filed a declaratory judgment action in the Fourth Judicial District, Utah County, State of Utah, requesting a declaration that there is no valid contract between the parties. The Matrix Group, LLC has alleged there is a contract between the parties obligating Innerlight Inc. to purchase \$750,000 of products for the 12-month period commencing October 18, 2004 and ending October 17, 2005, \$1,500,000 for the period commencing October 18, 2005 and ending October 17, 2006, and for each 12-month period thereafter, through and including October 17, 2013, at least \$4,000,000 of products from The Matrix Group, LLC. The document on which Matrix relies was drafted by Matrix and states that the acceptance of the appointment by distributor (Innerlight Inc.) is conditioned upon distributor's written acceptance of the Company's product price list. No written acceptance of the product price list was ever made by Innerlight Inc.

The Matrix Group, LLC filed a Utah Rule of Civil Procedure 12(b)(3) motion asking that the complaint be dismissed. On July 13, 2006 the Court for the Fourth Judicial District, Utah County, State of Utah, entered an order denying defendant's motion to dismiss under Rule 12(b)(3) based on Innerlight's assertion that a material condition precedent remains to be satisfied to establish an enforceable agreement between the parties. The Utah County Court has maintained jurisdiction of this action to make a final determination on the merits of Innerlight's claim.

THE MATRIX GROUP, LLC VS. INNERLIGHT, INC.

(U.S. DISTRICT COURT FOR THE SOUTHERN DISTRICT OF FLORIDA)

On July 6, 2006 The Matrix Group, LLC commenced an action against Innerlight, Inc. in the United States District Court for the Southern District of Florida. The action brought by The Matrix Group, LLC relates to the same facts and circumstances as the action commenced in March of 2006 by Innerlight, Inc. against The Matrix Group, LLC in Utah County, Utah. The Matrix Group, LLC is claiming that according to the terms of the alleged contract, Innerlight has the obligation to purchase \$28,750,000 of additional product from April 6, 2006 through October 17, 2013 and that The Matrix Group, LLC is entitled to a judgment against Innerlight, Inc. for alleged obligations to purchase product in the amount of \$744,050 from the period of October 18, 2005 through April 17, 2006. Innerlight, Inc. based upon the outstanding action in Utah County, Utah,

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has filed a motion with the United States District Court for the Southern District of Florida for a stay of the action in Florida or transfer of the action.

The Company believes that the plaintiff's (The Matrix Group, LLC) claims are without merit and is vigorously defending those claims and is prosecuting its

action on its complaint. Based upon the information the Company has at this time, it believes that the plaintiff's actions are without merit. However, at this time no prediction as to the outcome can be made.

PAIGE D. DAVISON VS. THE QUIGLEY CORPORATION

On February 26, 2004, the plaintiff filed an action against The Quigley Corporation (the "Company"), which was not served until April 5, 2004. The action alleges that the plaintiff suffered certain losses and injuries as a result of using the Company's nasal spray product. Among the allegations of the plaintiff are that the nasal spray was defective and unreasonably dangerous, lacked proper and adequate warnings and/or instructions, and was not fit for the purposes and uses intended. Discovery is continuing and trial is scheduled for early 2007.

The Company has investigated the claims and believes they are without merit. The Company believes plaintiff's claims are without merit and is vigorously defending those claims. Based upon the information the Company has at this time, it believes the action will not have a material impact to the Company. However, at this time no prediction as to the outcome can be made. Defense counsel takes the position that the science proposed in the litigation appears to be more advanced than the science which exists in peer reviewed medical journals. Whether the court will admit the testimony relating to the science behind plaintiff's claims, is not a matter which we can predict at this time.

CYNTHIA AARON VS. THE QUIGLEY CORPORATION, ET AL

On March 15, 2005, a complaint was filed in the Superior Court for San Diego County, California. This complaint was served on the Company on April 21, 2005. The plaintiff's complaint consists of causes of action sounding in negligence, negligent products liability, breach of warranty of merchantability, breach of express warranty, strict products liability and failure to warn. The action alleges that the plaintiff suffered certain losses and injuries as a result of using the Company's nasal spray product. Trial is scheduled for early 2007.

The Company believes plaintiff's claims are without merit and is vigorously defending those claims. Based upon the information the Company has at this time, it believes the action will not have a material impact on the Company. However, at this time no prediction as to the outcome can be made. Insurance defense counsel has informed the Company that counsel is unable to evaluate the likelihood of an unfavorable outcome at this time. Defense counsel takes the position that the science proposed in the litigation appears to be more advanced than the science which exists in peer reviewed medical journals. Whether the court will admit the testimony relating to the science behind plaintiff's claims, is not a matter which we can predict at this time.

POLSKI VS. THE QUIGLEY CORPORATION

On August 12, 2004, plaintiff filed an action against The Quigley Corporation in the District Court for Hennepin County, Minnesota, which was not served until September 2, 2004. On September 17, 2004, the Company removed the case to the United States District Court for the District of Minnesota. The action alleges that plaintiff suffered certain losses and injuries as a result of the Company's nasal spray product. Among the allegations of plaintiff are negligence, products liability, alleged breach of express and implied warranties, and an alleged breach of the Minnesota Consumer Fraud Statute. Discovery should be completed in this matter within 120 days and trial is scheduled for December 2006.

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The Company has investigated the claims and believes that they are without merit. The Company believes plaintiff's claims are without merit and is vigorously defending those claims. Based upon the information the Company has at this time, it believes the action will not have a material impact to the Company. However, at this time no prediction as to the outcome can be made. Defense counsel takes the position that the science proposed in the litigation appears to be more advanced than the science which exists in peer reviewed medical journals. Whether the court will admit the testimony relating to the science behind plaintiff's claims, is not a matter which we can predict at this time.

TERMINATED LEGAL PROCEEDINGS

RICHARD FLYNN VS. THE QUIGLEY CORPORATION, ET AL

On May 20, 2005, a complaint was filed in the Superior Court of Orange County, California. The action alleged that the plaintiff suffered certain losses and injuries as a result of using the Company's nasal spray product. The complaint consisted of causes of action sounding in negligence, products liability, and punitive damages. The lawsuit has been resolved in exchange for the payment of a nominal sum out of insurance proceeds at the direction of the insurance carrier. The appropriate court filings are being finalized.

NOTE 8 - TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

On September 8, 1998, the Company's Board of Directors declared a dividend distribution of Common Stock Purchase Rights (individually, a "Right" and collectively, the "Rights"), thereby creating a Stockholder Rights Plan (the

"Plan"). The dividend was payable to the stockholders of record on September 25, 1998. Each Right entitles the stockholder of record to purchase from the Company that number of common shares having a combined market value equal to two times the Rights exercise price of \$45. The Rights are not exercisable until the distribution date, which will be the earlier of a public announcement that a person or group of affiliated or associated persons has acquired 15% or more of the outstanding common shares, or the announcement of an intention by a similarly constituted party to make a tender or exchange offer resulting in the ownership of 15% or more of the outstanding common shares. The dividend has the effect of giving the stockholder a 50% discount on the share's current market value for exercising such right. In the event of a cashless exercise of the Right, and the acquirer has acquired less than 50% beneficial ownership of the Company, a stockholder may exchange one Right for one common share of the Company. The final expiration date of the Plan is September 25, 2008.

Since the inception of the stock buy-back program in January 1998, the Board has subsequently increased the authorization on five occasions, for a total authorized buy-back of 5,000,000 shares or approximately 38% of the previous shares outstanding. Such shares are reflected as treasury stock and will be available for general corporate purposes. From the initiation of the plan until June 30, 2006, 4,159,191 shares have been repurchased at a cost of \$24,042,801 or an average cost of \$5.78 per share. No shares were repurchased during 2005 or 2006 to date.

During the year 2006 to date a combined total of options and warrants of 862,000 have been exercised resulting in proceeds to the Company of \$1,583,134. These exercises have been appropriately reflected in both additional paid-in-capital and common stock in the period.

NOTE 9 - INCOME TAXES

Certain exercises of options and warrants, and restricted stock issued for services that became unrestricted resulted in reductions to taxes currently payable and a corresponding increase to additional-paid-in-capital for prior years. In addition, certain tax benefits for option and warrant exercises totaling \$6,379,633 are deferred and will be credited to additional-paid-in-capital when the NOL's attributable to these exercises are utilized. As a result, these NOL's will not be available to offset income tax expense. The net operating loss carry-forwards currently approximate \$14.0 million for federal purposes, of which \$3.5 million will expire in 2019, \$4.0 million in 2020 and \$6.5 million in 2022. Additionally, there are net operating loss carry-forwards of \$19.0 million for state purposes, of which \$9.7 million will expire in 2009, \$2.1 million in 2010, \$2.8 million in 2012 and \$4.4 million in 2013. Until sufficient taxable income to offset the temporary timing differences attributable to operations and the tax deductions attributable to option, warrant and stock activities are assured, a valuation allowance equaling the total deferred tax asset is being provided.

NOTE 10 - EARNINGS PER SHARE

Basic loss per share ("EPS") excludes dilution and is computed by dividing income available to common stockholders by the weighted - average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity. Diluted EPS also utilizes the treasury stock method which prescribes a theoretical buy-back of shares from the theoretical proceeds of all options and warrants outstanding during the period. Since there is a large number of options and warrants outstanding, fluctuations in the actual market price can have a variety of results for each period presented.

A reconciliation of the applicable numerators and denominators of the income statement periods presented, as reflects the results of continuing operations, is as follows (millions, except per share amounts):

	Three Months Ended June 30, 2006			Six Months Ended June 30, 2006			Three Months Ended June 30, 2005			Six Months Ended June 30, 2005		
	Loss	Shares	EPS	Loss	Shares	EPS	Loss	Shares	EPS	Loss	Shares	EPS
Basic EPS	(\$ 2.6)	12.4	(\$ 0.21)	(\$ 4.1)	12.1	(\$ 0.34)	(\$ 1.8)	11.7	(\$ 0.15)	(\$ 1.9)	11.7	(\$ 0.17)
Dilutives:												
Options/Warrants	--		--	--		--	--		--	--		--
Diluted EPS	(\$ 2.6)	12.4	(\$ 0.21)	(\$ 4.1)	12.1	(\$ 0.34)	(\$ 1.8)	11.7	(\$ 0.15)	(\$ 1.9)	11.7	(\$ 0.17)

Options and warrants outstanding at June 30, 2006 and 2005 were 3,761,750 and 4,164,250 respectively. They were not included in the computation of diluted earnings for the periods because the effect would be anti-dilutive.

NOTE 11 - RELATED PARTY TRANSACTIONS

An agreement between the Company and the founders Mr. Guy J. Quigley and Mr. Charles A. Phillips, both officers and stockholders of the Company, was entered

into on June 1, 1995. The founders, in consideration of the acquisition of the Cold-Eeze(R) cold therapy product, shared a total commission of five percent (5%), on sales collected, less certain deductions until this agreement expired on May 31, 2005. Amounts paid or payable for the three month periods ended June 30, 2006 and 2005, were zero and \$79,733 respectively, and for the six month periods ended June 30, 2006 and 2005 were zero and \$347,284, respectively. Amounts payable under such agreements at June 30, 2006 and December 31, 2005 were zero.

The Company is in the process of acquiring licenses in certain countries through related party entities whose stockholders include Mr. Gary Quigley, a relative of the Company's Chief Executive Officer. Fees amounting to \$38,250 and \$74,250 have been paid to a related entity during the three month periods ended June 30, 2006 and 2005, respectively, the amounts for the six month periods ended June 30, 2006 and 2005 were \$91,500 and \$160,548, respectively. This expenditure is used to assist with the regulatory aspects of obtaining such licenses.

NOTE 12 - SEGMENT INFORMATION

The basis for presenting segment results generally is consistent with overall Company reporting. The Company reports information about its operating segments in accordance with Financial Accounting Standard Board Statement No. 131, "DISCLOSURE ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION," which establishes standards for reporting information about a company's operating segments. All consolidating items are included in Corporate & Other.

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The Company divides its operations into four reportable segments as follows: The Quigley Corporation (Cold-Remedy), whose main product is Cold-Eeze(R), a proprietary zinc gluconate glycine lozenge for the common cold; Darius (Health and Wellness), whose business is the sale and direct marketing of a range of health and wellness products; Quigley Manufacturing (Contract Manufacturing), which is the production facility for the Cold-Eeze(R) lozenge product and also performs contract manufacturing services for third party customers, and Pharma, (Ethical Pharmaceutical), currently involved in research and development activity to develop patent applications for potential pharmaceutical products.

Financial information relating to 2006 and 2005 operations, by business segment, follows:

For the Three Months Ended June 30, 2006	Cold Remedy	Health and Wellness	Contract Manufacturing	Ethical Pharmaceutical	Corporate & Other	Total
Revenues						
Customers-domestic	\$ 1,529,652	\$ 3,304,323	\$ 437,625	--	--	\$ 5,271,600
Customers-international	--	910,867	--	--	--	910,867
Inter-segment	--	--	1,142,456	--	(\$ 1,142,456)	--
Segment operating profit (loss)	(\$ 1,039,085)	(\$ 168,123)	(\$ 256,057)	(\$ 992,168)	(\$ 271,821)	(\$ 2,727,254)
For the Six Months Ended June 30, 2006						
Revenues						
Customers-domestic	\$ 6,706,992	\$ 6,721,212	\$ 961,517	--	--	\$ 14,389,721
Customers-international	--	2,058,784	--	--	--	2,058,784
Inter-segment	--	--	2,735,584	--	(\$ 2,735,584)	--
Segment operating profit (loss)	(\$ 1,331,957)	(\$ 386,495)	(\$ 438,886)	(\$ 1,869,129)	(\$ 313,412)	(\$ 4,339,879)
For the Three Months Ended June 30, 2005						
Revenues						
Customers-domestic	\$ 2,140,905	\$ 4,085,695	\$ 1,365,695	--	--	\$ 7,592,295
Customers-international	--	1,251,878	--	--	--	1,251,878
Inter-segment	--	--	1,172,949	--	(\$ 1,172,949)	--
Segment operating profit (loss)	(\$ 927,524)	\$ 73,818	\$ 41,184	(\$ 912,952)	(\$ 134,930)	(\$ 1,860,404)
For the Six Months Ended June 30, 2005						
Revenues						
Customers-domestic	\$ 7,887,546	\$ 8,199,013	\$ 2,376,319	--	--	\$ 18,462,878
Customers-international	--	2,134,565	--	--	--	2,134,565
Inter-segment	--	--	2,615,246	--	(\$ 2,615,246)	--
Segment operating profit (loss)	(\$ 571,281)	\$ 467,163	\$ 201,539	(\$ 1,956,434)	(\$ 196,322)	(\$ 2,055,335)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Report contains forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, management of growth, competition, pricing pressures on the Company's products, industry growth and general economic conditions. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements.

CERTAIN RISK FACTORS

The Quigley Corporation makes no representation that the United States Food and Drug Administration ("FDA") or any other regulatory agency will grant an Investigational New Drug ("IND") or take any other action to allow its formulations to be studied or/and for any IND to be marketed. Furthermore, no claim is made that potential medicine discussed herein is safe, effective, or approved by the FDA. Additionally, data that demonstrates activity or effectiveness in animals or in vitro tests do not necessarily mean such formula test compound, referenced herein, will be effective in humans. Safety and effectiveness in humans will have to be demonstrated by means of adequate and well controlled clinical studies before the clinical significance of the formula test compound is known. Readers should carefully review the risk factors described in other sections of the filing as well as in other documents the Company files from time to time with the Securities and Exchange Commission ("SEC").

OVERVIEW

The Company, headquartered in Doylestown, Pennsylvania, is a leading manufacturer, marketer and distributor of a diversified range of homeopathic and health products which comprise the Cold Remedy, Health and Wellness and Contract Manufacturing segments. The Company is also involved in the research and development of potential prescription products that comprise the Ethical Pharmaceutical segment.

The Company's business is the manufacture and distribution of cold remedy products to the consumer through the over-the-counter marketplace together with the sale of proprietary health and wellness products through its direct selling subsidiary. One of the Company's key products in its Cold Remedy segment is Cold-Eeze(R), a zinc gluconate glycine product proven in two double-blind clinical studies to reduce the duration and severity of the common cold symptoms by nearly half. Cold-Eeze(R) is now an established product in the health care and cold remedy market. Effective October 1, 2004, the Company acquired substantially all of the assets of JoEl, Inc., the previous manufacturer of the Cold-Eeze(R) lozenge product. This manufacturing entity, now called Quigley Manufacturing Inc. ("QMI"), a wholly owned subsidiary of the Company, will continue to produce lozenge product along with performing such operational tasks as warehousing and shipping the Company's Cold-Eeze(R) products. In addition, QMI produces a variety of hard and organic candy for sale to third party customers in addition to performing contract manufacturing activities for non-related entities.

The Cold-Remedy segment reported a reduction in net sales in the second quarter and year to date 2006 of \$611,253 and \$1,180,554, respectively, as compared to the same periods in 2005. The decline was the result of a shift in buying patterns by our customers and the end consumers. Changes in buying patterns are impacted by seasonal factors including the incidence of colds and anticipated consumer demand by our customers. In addition, sales have been affected by the increased competition from certain widely promoted vitamin-based products from well known celebrities, which lack clinical efficacy data.

The Contract Manufacturing segment reported a reduction in net sales in the second quarter and year to date 2006 of \$928,070 and \$1,414,802, respectively, as compared to sales in the 2005 comparative periods. The main reason for the reduction in sales was due to an OTC company that utilized this segment's manufacturing capabilities in 2005 and discontinued its product in the marketplace in 2006.

Darius International Inc. ("Darius"), the Health and Wellness segment, a wholly owned subsidiary of the Company, was formed in January 2000 to introduce new products to the marketplace through a network of independent distributor

representatives. Darius is a direct selling organization specializing in proprietary health and wellness products. The formation of Darius has provided diversification to the Company in both the method of product distribution and the broader range of products available to the marketplace, serving as a balance to the seasonal revenue cycles of the Cold-Eeze(R) branded products. In the second quarter and year to date 2006, this segment reported a reduction in net

sales of \$1,122,383 and \$1,553,582. Sales in the 2006 periods reflect the continued reduction in active independent distributor representatives.

In January 2001, the Company formed an Ethical Pharmaceutical segment, Quigley Pharma Inc. ("Pharma"), that is under the direction of its Executive Vice President and Chairman of its Medical Advisory Committee. Pharma was formed for the purpose of developing naturally derived prescription drugs. Pharma is currently undergoing research and development activity in compliance with regulatory requirements. The Company is in the initial stages of what may be a lengthy process to develop these patent applications into commercial products. The Company continues to invest significantly in ongoing research and development activities of this segment. Such investment amounted to \$992,168 and \$1,869,129 in the second quarter 2006 and year to date, respectively, compared to \$912,952 and \$1,956,434 in the 2005 comparative periods.

Future revenues, costs, margins, and profits will continue to be influenced by the Company's ability to maintain its manufacturing availability and capacity together with its marketing and distribution capabilities and the requirements associated with the development of Pharma's potential prescription drugs in order to continue to compete on a national and international level. The continued expansion of Darius is dependent on the Company retaining existing independent distributor representatives and recruiting additional active representatives both internationally and within the United States, continued conformity with government regulations, a reliable information technology system capable of supporting continued growth and continued reliable sources for product and materials to satisfy consumer demand.

COLD-REMEDY PRODUCTS

In May 1992, the Company entered into an exclusive agreement for the worldwide representation, manufacturing and marketing of Cold-Eeze(R) products in the United States. Cold-Eeze(R), a zinc gluconate glycine formulation (ZIGG(TM)), is an over-the-counter consumer product used to reduce the duration and severity of the common cold and is available in lozenge, sugar-free tablet and gum form. The Company has substantiated the effectiveness of Cold-Eeze(R) through a variety of studies. A randomized double-blind placebo-controlled study, conducted at Dartmouth College of Health Science, Hanover, New Hampshire, concluded that the lozenge formulation treatment, initiated within 48 hours of symptom onset, resulted in a significant reduction in the total duration of the common cold.

On May 22, 1992, "ZINC AND THE COMMON COLD, A CONTROLLED CLINICAL STUDY," was published in England in the "Journal of International Medical Research," Volume 20, Number 3, Pages 234-246. According to this publication, (a) flavorings used in other Zinc lozenge products (citrate, tartrate, separate, orotate, picolinate, mannitol or sorbitol) render the Zinc inactive and unavailable to the patient's nasal passages, mouth and throat where cold symptoms have to be treated, (b) this patented formulation delivers approximately 93% of the active Zinc to the mucosal surfaces and (c) the patient has the same sequence of symptoms as in the absence of treatment but goes through the phases at an accelerated rate and with reduced symptom severity.

On July 15, 1996, results of a new randomized double-blind placebo-controlled study on the common cold, which commenced at the CLEVELAND CLINIC FOUNDATION on October 3, 1994, were published. The study called "ZINC GLUCONATE LOZENGES FOR TREATING THE COMMON COLD" was completed and published in the ANNALS OF INTERNAL MEDICINE - VOL. 125 NO. 2. Using a 13.3mg lozenge (almost half the strength of the lozenge used in the Dartmouth Study), the result still showed a 42% reduction in the duration of common cold symptoms.

In April 2002, the Company announced the statistical results of a retrospective clinical adolescent study at the Heritage School facility in Provo, Utah that suggests that Cold-Eeze(R) is also an effective means of preventing the common

cold and statistically (a) lessens the number of colds an individual suffers per year, reducing the median from 1.5 to zero and (b) reduces the use of antibiotics for respiratory illnesses from 39.3% to 3.0% when Cold-Eeze(R) is administered as a first line treatment approach to the common cold.

In April 2002, the Company was assigned a Patent Application which was filed with the Patent Office of the United States Commerce Department for the use of Cold-Eeze(R) as a prophylactic for cold prevention. The new patent application follows the results of the adolescent study at the Heritage School facility.

In May 2003, the Company announced the findings of a prospective study, conducted at the Heritage School facility in Provo, Utah, in which 178 children, ages 12 to 18 years, were given Cold-Eeze(R) lozenges both symptomatically and prophylactically from October 5, 2001 to May 30, 2002. The study found a 54% reduction in the most frequently observed cold duration. Those subjects not receiving treatment most frequently experienced symptom duration of 11 days compared with 5 days when Cold-Eeze(R) lozenges were administered, a reduction of 6 days.

The business of the Company is subject to federal and state laws and regulations adopted for the health and safety of users of the Company's products. Cold-Eeze(R) is a homeopathic remedy that is subject to regulations by various federal, state and local agencies, including the United States Food and Drug

Administration ("FDA") and the Homeopathic Pharmacopoeia of the United States.

HEALTH AND WELLNESS

Darius, through Innerlight Inc., its wholly owned subsidiary, is a direct selling company specializing in the development and distribution of proprietary health and wellness products, including herbal vitamins and dietary supplements for the human condition, primarily within the United States and since the second quarter of 2003, internationally.

The continued success of this segment is dependent, among other things, on the Company's ability:

- o To maintain existing independent distributor representatives and recruit additional successful independent distributor representatives. Additionally, the loss of key high-level distributors or business contributors as a result of business disagreements, litigation or otherwise could negatively impact future growth and revenues;
- o To continue to develop and make available new and desirable products at an acceptable cost;
- o To maintain safe and reliable multiple-location sources for product and materials;
- o To maintain a reliable information technology system and internet capability. The Company has expended significant resources on systems enhancements in the past and will continue to do so to ensure prompt customer response times, business continuity and reliable reporting capabilities. Any interruption to computer systems for an extended period of time could be harmful to the business;
- o To execute conformity with various federal, state and local regulatory agencies both within the United States and abroad. With the growth of international business, difficulties with foreign regulatory requirements could have a significant negative impact on future growth. Any inquiries from government authorities relating to the Company's business and compliance with laws and regulations could be harmful to the Company;
- o To compete with larger more mature organizations operating within the same market and to remain competitive in terms of product relevance and business opportunity;

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- o To successfully implement methods for progressing the direct selling philosophy internationally; and
- o To plan strategically for general economic conditions.

Any or all of the above risks could result in significant reductions in revenues and profitability of the Health and Wellness segment.

CONTRACT MANUFACTURING

From October 1, 2004, this manufacturing entity, now called QMI, a wholly owned subsidiary of the Company, has continued to produce lozenge product along with performing such operational tasks as warehousing and shipping the Company's Cold-Eeze(R) products. In addition to that function, QMI produces a variety of hard and organic candy for sale to third party customers in addition to performing contract manufacturing activities for non-related entities. QMI is an FDA-approved facility.

ETHICAL PHARMACEUTICAL

Pharma's current activity is the research and development of naturally-derived prescription drugs with the goal of improving the quality of life and health of those in need. Research and development will focus on the identification, isolation and direct use of active medicinal substances. One aspect of Pharma's research will focus on the potential synergistic benefits of combining isolated active constituents and whole plant components. The Company will search for new natural sources of medicinal substances from plants and fungi from around the world while also investigating the use of traditional and historic medicinals and therapeutics.

The pre-clinical development, clinical trials, product manufacturing and marketing of Pharma's potential new products are subject to federal and state regulation in the United States and other countries. Obtaining FDA regulatory approval for these pharmaceutical products can require substantial resources and take several years. The length of this process depends on the type, complexity and novelty of the product and the nature of the disease or other indications to be treated. If the Company cannot obtain regulatory approval of these new products in a timely manner or if the patents are not granted or if the patents are subsequently challenged, these possible events could have a material effect on the business and financial condition of the Company. The strength of the

Company's patent position may be important to its long-term success. There can be no assurance that these patents and patent applications will effectively protect the Company's products from duplication by others.

The areas of focus are:

- o A Patent (No. 6,555,573 B2) entitled "Method and Composition for the Topical Treatment of Diabetic Neuropathy." The patent extends through March 27, 2021.
- o A Patent (No. 6,592,896 B2) entitled "Medicinal Composition and Method of Using It" (for Treatment of Sialorrhea and other Disorders) for a product to relieve sialorrhea (drooling) in patients suffering from Amyotrophic Lateral Sclerosis (ALS), otherwise known as Lou Gehrig's Disease. The patent extends through August 6, 2021.
- o A Patent (No. 6,596,313 B2) entitled "Nutritional Supplement and Method of Using It" for a product to relieve sialorrhea (drooling) in patients suffering from Amyotrophic Lateral Sclerosis (ALS), otherwise known as Lou Gehrig's Disease. The patent extends through April 15, 2022.
- o A Patent (No. 6,753,325 B2) entitled "Composition and Method for Prevention, Reduction and Treatment of Radiation Dermatitis," a composition for preventing, reducing or treating radiation dermatitis. The patent extends through November 5, 2021.

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- o A Patent (No. 6,827,945 B2) entitled "Nutritional Supplement and Method of Using It" for a method for treating at least one symptom of arthritis. The patent extends through April 22, 2023.
- o In September 2002, the Company filed a foreign patent application entitled "Method and Composition for the Topical Treatment of Diabetic Neuropathy" in Europe and other foreign markets.

QR-333 - In April 2002, the Company initiated a Phase II Proof of Concept Study in France for treatment of diabetic neuropathy, which was concluded in 2003. In April 2003, the Company announced that an independently monitored analysis of the Phase II Proof of Concept Study concluded that subjects using this formulation had 67% of their symptoms improve, suggesting efficacy. In March 2004, the Company announced that it had completed its first meeting at the FDA prior to submitting the Company's IND application for the relief of symptoms of diabetic symmetrical peripheral neuropathy. The FDA's pre-IND meeting programs are designed to provide sponsors with advance guidance and input on drug development programs. In September 2005, the Company announced that a preliminary report of its topical compound for the treatment of diabetic neuropathy was recently featured in the JOURNAL OF DIABETES AND ITS COMPLICATION. Authored by Dr. C. LeFante and Dr. P. Valensi, the article appeared in the June 1, 2005 issue, and included findings that showed the compound reduced the severity of numbness, and irritation from baseline values. In October 2005, the Company announced the results of pre-clinical toxicology studies that showed no irritation, photo toxicity, contact hypersensitivity or photo allergy when applied topically to hairless guinea pigs and another study that showed no difference in the dermal response of the compound or placebo when applied to Gottingen Minipigs. (Both animal models are suggested for the evaluation of topical drugs, by the FDA). In March 2006, the Company announced the filing of an IND application with the FDA for its topical compound for the treatment of Diabetic Peripheral Neuropathy. This filing allows the Company to begin human clinical trials following a 30-day review period. If the FDA has no further comments, studies with human subjects will commence as soon as possible pending the availability of study drug. This application includes a compilation of all of the supporting development data and regulatory documentation required to file an IND application with the FDA. In April 2006, upon FDA approval for its IND, the Company announced that it will be commencing human studies on its formulation. Patient screening and enrollment will begin immediately for the first of two human trials designed to determine the safety pharmacokinetics of the Company's IND. A Phase 2(b) dose ranging study will commence after the completion of the pharmacokinetic study.

The Company also announced that in anticipation of receiving this IND, it has previously held its investigators meeting to organize its multi-center phase 2(b) trials. This will allow the Company to begin these trials as soon as study drug is available.

In May 2006, the Company announced that it has begun screening patients to start testing their investigational new drug QR-333. Starting May 15th, patients suffering from diabetic peripheral neuropathy will be given doses in an escalating fashion to provide pharmacokinetics data.

QR-336 - In April 2004, the Company announced the results of a preliminary, pre-clinical animal study which measured the effect of its proprietary patent applied for formulation against ionizing (nuclear) radiation. This study determined that parenteral (injection) administration of the study compound was protective against the effects of a lethal, whole body ionizing radiation dose in a mouse model. This compound is being investigated to potentially reduce the

effects of radiation exposure on humans. In April 2006 the Company announced that it signed an agreement with Dr. William H. McBride, the Vice Chair of Research, Department of Oncology at UCLA to help develop an appropriate animal model radio protective research program for QR-336 to comply with New Food and Drug Administration animal efficacy rules for radio-protective pharmacological compounds.

QR-337 - In September 2003, the Company announced its intention to file for permission to study its patent pending potential treatment for psoriasis and other skin disorders. Continued testing will therefore have to be conducted under an IND application following positive preliminary results.

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QR-435 - In May 2004, the Company announced that an intranasal spray application of the anti-viral test compound demonstrated efficacy by significantly reducing the severity of illness in ferrets that had been infected with the Influenza A virus. In pre-clinical studies, the antiviral formulation demonstrates antiviral activity against Ocular and Genital Herpes, indicating a new research and development path for the versatile compound. The Company is pleased with the progress and indicated that continued research is required to confirm the compound's safety and efficacy profiles.

In May 2006, the Company announced that it will begin a series of studies to evaluate the ocular antiviral efficacy and toxicity of its naturally-derived topical compound QR-435. Studies will be completed at The Campbell Ophthalmic Microbiology Laboratory at the University of Pittsburgh in the same lab where previous successful in vitro studies of QR-435 were performed.

QR-437 - In January 2004, the Company reported that its compound, which was demonstrating antiviral activity, had shown virucidal and virustatic activity against the strain 3B of the Human Immunodeficiency Virus Type 1 (HIV-1) in an in-vitro study. Additionally, the Company decided that the derivative compound of the anti-viral formulation previously found to be effective for treating Sialorrhoea would probably postpone further development on the Sialorrhoea indication and concentrate on further qualification and development of the anti-viral capabilities of the compound in humans.

QR-439 - In December 2003, the Company announced positive test results of a preliminary independent in vitro study indicating that a test compound of the Company previously tested on the Influenza virus showed "significant virucidal activity against a strain of the Severe Acute Respiratory Syndrome (SARS) virus."

In January 2004, the Company announced that it would conduct two further studies evaluating the compound which had shown activity against Influenza and SARS. The first study was intended to repeat the previously announced results, which demonstrated the compound to be 100 percent effective in preventing non-infected ferrets in close proximity to an infected ferret from becoming infected with the Influenza A virus. The second study was a dose ranging study on the test compound. Upon dosage determination and confirmation results from these forthcoming animal model studies, a human proof of concept study using a virus challenge with Influenza A virus in a quarantine unit would be a viable next step.

QR-440 (a) - The Company received an additional Investigational New Animal Drug (INAD) number from the Center for Veterinary Medicine of the FDA. In previous studies, QR-440 has been shown to reduce inflammation and also suggests possible disease-modifying potential.

QR-441(a) - In November 2005, the Company was assigned nine INADs for a broad anti-viral agent by the Center for Veterinary Medicine of the FDA. Eight of the INADs are for investigating the compound use against avian flu H5N1virus in chickens, turkeys, ducks, pigs, horses, dogs, cats and non-food birds. In January 2006, a ninth INAD was assigned for investigating its compound for treating arthritis in dogs. In March 2006, the Company announced that it is planning a series of controlled experiments designed to test its all natural broad spectrum anti-viral compound in poultry stocks. The Company also announced that Dr. Timothy S. Cummings, MS, DVM, ACPV Clinical Poultry Professor at the College of Veterinary Medicine at Mississippi State University and Thomas G. Voss, Ph.D. Assistant Professor Tulane University School of Medicine will be assisting the Company in the development of the INAD bird challenge studies.

In July 2006, the Company announced that it has obtained positive results that support Quigley Pharma's continued progress in developing the natural broad spectrum anti-viral QR441(a) for use in preventing the spread of avian flu in poultry stocks. The results of the healthy chicken medical feed study confirm that food or water dose forms provide an opportunity for potential commercialization if the compound demonstrates efficacy within these dose forms. The results clearly showed that the chickens tolerated and consumed all concentrations of QR441 (a) in the medicated feed. They also tolerated and consumed the low concentration of drug in the medicated water.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS Statement No. 109, ACCOUNTING FOR INCOME TAXES. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company beginning January 1, 2007. The Company has not yet evaluated the effect FIN 48 will have on its financial statements and related disclosures.

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CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The Company is organized into four different but related business segments, Cold Remedy, Health and Wellness, Contract Manufacturing and Ethical Pharmaceutical. When providing for the appropriate sales returns, allowances, cash discounts and cooperative advertising costs, each segment applies a uniform and consistent method for making certain assumptions for estimating these provisions that are applicable to that specific segment. Traditionally, these provisions are not material to net income in the Health and Wellness and Contract Manufacturing segments. The Ethical Pharmaceutical segment does not have any revenues.

The product in the Cold Remedy segment, Cold-Eeze(R), has been clinically proven in two double-blind studies to reduce the severity and duration of common cold symptoms. Accordingly, factors considered in estimating the appropriate sales returns and allowances for this product include it being: a unique product with limited competitors; competitively priced; promoted; unaffected for remaining shelf life as there is no expiration date; and monitored for inventory levels at major customers and third-party consumption data, such as Information Resources, Inc. ("IRI").

At June 30, 2006 and December 31, 2005, the Company included reductions to accounts receivable for sales returns and allowances of \$360,000 and \$635,000, respectively, and cash discounts of \$40,000 and \$178,000, respectively. Additionally, current liabilities at June 30, 2006 and December 31, 2005 include \$136,000 and \$1,067,072, respectively, for cooperative advertising costs.

Management believes there are no material charges to net income in the current period related to sales from a prior period.

REVENUE

Provisions to reserves to reduce revenues for cold remedy products that do not have an expiration date, include the use of estimates, which are applied or matched to the current sales for the period presented. These estimates are based on specific customer tracking and an overall historical experience to obtain an effective applicable rate, which is tested on an annual basis and reviewed quarterly to ascertain the most applicable effective rate. Additionally, the monitoring of current occurrences, developments by customer, market conditions and any other occurrences that could affect the expected provisions relative to net sales for the period presented are also performed.

A one percent deviation for these consolidated reserve provisions for the three month periods ended June 30, 2006, and 2005 would affect net sales by approximately \$69,000 and \$100,000, respectively, and the six month periods ended June 30, 2006 and 2005 by approximately \$186,000 and \$232,000, respectively. A one percent deviation for cooperative advertising reserve provisions for the three month periods ended June 30, 2006 and 2005 would affect net sales by approximately \$20,000 and \$28,000, respectively, and the six month periods ended June 30, 2006 and 2005 by approximately \$81,000 and \$69,000, respectively.

The reported results include a remaining returns provision of approximately \$129,000 and \$184,000 at June 30, 2006 and December 31, 2005, respectively, in the event of future product returns following the discontinuation of the Cold-Eeze(R) Cold Remedy Nasal Spray product in September 2004.

INCOME TAXES

The Company has recorded a valuation allowance against its net deferred tax assets. Management believes that this allowance is required due to the uncertainty of realizing these tax benefits in the future. The uncertainty arises because the Company may incur substantial research and development costs in its Ethical Pharmaceutical segment.

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THREE MONTHS ENDED JUNE 30, 2006 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2005

Net sales for the three month period ended June 30, 2006 were \$6,182,467, reflecting a decrease of \$2,661,706 over the net sales of \$8,844,173 for the comparable three month period ended June 30, 2005. The Cold Remedy segment reported net sales in the 2006 period of \$1,529,652, a decrease of \$611,253, or 28.6%, over the comparable 2005 period of \$2,140,905. The Health and Wellness segment reported net sales in the 2006 period of \$4,215,190, a decrease of \$1,122,383, or 21.0%, over the net sales of \$5,337,573 for the comparable 2005 period. The Contract Manufacturing segment reported net sales of \$437,625 in the 2006 period compared to \$1,365,695 in the comparable 2005 period, a decrease of \$928,070 or 68.0%.

The Cold-Remedy segment sales decrease was the result of a shift in buying patterns by our customers and the end consumers. Changes in buying patterns are impacted by seasonal factors including the incidence of colds and anticipated consumer demand by our customers. In addition, sales have been affected by the increased competition from certain widely promoted vitamin-based products from well known celebrities, which lack clinical efficacy data.

The Health and Wellness segment's net sales decreased in the 2006 period as a result of the continued reduction in the number of active independent distributor representatives.

Net sales of the Contract Manufacturing segment decreased significantly in the second quarter largely as a result of an OTC company that utilized this segment's manufacturing capabilities in 2005 discontinuing its product in the marketplace in 2006. While the primary purpose of the Contract Manufacturing segment is to manufacture COLD-EEZE(R), other contract manufacturing is performed for non-related third party entities to compensate for the necessary fixed costs associated with this segment.

Cost of sales as a percentage of net sales for the three months ended June 30, 2006 was 62.6% compared to 65.7% for the comparable 2005 period, a decrease of 3.1%. This decrease was primarily due to the expiration of a founders' commission in May 2005, related to the Cold-Remedy segment, amounting to an approximately 2.9% decrease in the cost of goods of this segment. The cost of goods for the Health and Wellness segment decreased by 3.7% between periods due to reduced product cost and reduced commission expense to independent distributor representatives. The cost of goods of the Contract Manufacturing segment was negatively impacted in the 2006 period due to an OTC company that utilized the manufacturing capabilities of this segment having discontinued this product in the marketplace.

Sales and marketing expense for the three month period ended June 30, 2006 were \$1,078,649, an increase of \$11,890 over the comparable 2005 period amount of \$1,066,759. The increase was primarily due to fluctuating brokers' commission, outside advertising and product marketing and promotion expenses between the periods.

General and administration costs for the three month period ended June 30, 2006 was \$3,100,378 compared to \$2,986,507 for the 2005 period, an increase of \$113,871 between the periods. The increase in 2006 was primarily due to increased legal and insurance costs of \$84,000 and \$88,000, respectively, a reduction to payroll costs of \$179,000, with other costs combining to increase by \$152,000.

Research and development costs during the three months ended June 30, 2006 were \$857,642 compared to \$840,659 during the 2005 comparable period, reflecting an increase in 2006 of \$16,983, primarily as a result of increased Pharma segment costs and reduced study activity related to the Cold-Eeze(R) products.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2005

Net sales for the six month period ended June 30, 2006 were \$16,448,505, reflecting a decrease of \$4,148,938 over the net sales of \$20,597,443 for the comparable six month period ended June 30, 2005. The Cold Remedy segment reported net sales in 2006 of \$6,706,992, a decrease of \$1,180,554, or 15.0%, over the comparable 2005 period of \$7,887,546. The Health and Wellness segment reported net sales in 2006 of \$8,779,996, a reduction of \$1,553,582, or 15.0%,

over the net sales of \$10,333,578 for the comparable 2005 period. The Contract Manufacturing segment reported net sales of \$961,517 in the 2006 period, compared to \$2,376,319 in the 2005 a decrease of \$1,414,802 or 59.5%.

The Cold-Remedy segment sales decrease was the result of a shift in buying patterns by our customers and the end consumers. Changes in buying patterns are impacted by seasonal factors including the incidence of colds and anticipated consumer demand by our customers. In addition, sales have been affected by the increased competition from certain widely promoted vitamin-based products from well known celebrities, which lack clinical efficacy data. Segment sales may also have been impacted due to the release in January 2006, of a medical publication that implied that cough products had limited effectiveness while antihistamines were more effective in reducing coughs, thereby depressing cough

cold category sales.

The Health and Wellness segment's net sales decreased in the 2006 period as a result of the continued reduction in the number of active independent distributor representatives. Corrective operating and legal actions necessary to address the changes in active independent distributor representatives continue to be the focus for this segment.

Net sales of the Contract Manufacturing segment decreased significantly year to date 2006 largely as a result of an OTC company that utilized this segment's manufacturing capabilities in 2005 discontinuing its product in the marketplace in 2006. While the primary purpose of the Contract Manufacturing segment is to manufacture COLD-EEZE(R), other contract manufacturing is performed for non-related third party entities to compensate for the necessary fixed costs associated with this segment.

Cost of sales as a percentage of net sales for the six months ended June 30, 2006 was 53.7% compared to 57.6% for the comparable 2005 period, a decrease of 3.9%. This decrease was primarily due to the expiration of a founders' commission in May 2005, related to the Cold-Remedy segment, amounting to an approximately 3.8% decrease in the cost of goods of this segment. The cost of goods for the Health and Wellness segment decreased by 2.3% between periods due to reduced product cost related to product mix and reduced commission expense to independent distributor representatives. The cost of goods of the Contract Manufacturing segment was negatively impacted in the 2006 period due to an OTC company that utilized the manufacturing capabilities of this segment having discontinued this product in the marketplace.

Sales and marketing expense for the six month period ended June 30, 2006 were \$3,513,574, an increase of \$611,984 over the comparable 2005 period amount of \$2,901,590. The increase was primarily due to increased media advertising in the 2006 period of \$244,000, particularly in support of the Cold-Eeze(R) products, cold remedy product marketing and promotion increased by \$182,000 due to professional sampling and promotional activity, and payroll costs increased by \$154,000.

General and administration costs for the six month period ended June 30, 2006 was \$6,806,139 compared to \$5,981,276 during the 2005 period, an increase of \$824,863 between the periods. The increase in 2006 was primarily due to increased legal costs of \$435,000 due to ongoing law suit activities particularly the discontinued nasal spray product, and increased insurance costs of \$287,000.

Research and development costs during the six months ended June 30, 2006 were \$1,642,165 compared to \$1,908,962 during the 2005 comparable period, reflecting a decrease in 2006 of \$266,797, primarily as a result of decreased Pharma segment costs and decreased Cold-Eeze(R) activity.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$17,539,099 and \$20,682,262 at June 30, 2006 and December 31, 2005, respectively. Changes in working capital overall have been primarily due to the following items: cash balances decreased by \$824,774; account receivable balances decreased by \$6,699,522 due to seasonal factors and effective collection practices; inventory increased by \$896,477 primarily due to a slow down in sales activity; accrued advertising decreased by \$2,677,876 due to the seasonal nature of the Cold-Remedy segment, accrued royalties and sales commissions decreased by \$486,212 largely due to the effects of certain litigation in progress and the payment in 2006 of sales related incentives provided for at December 31, 2005. Total debt balances at December 31, 2005 were

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repaid in 2006 with the final repayment having been made in April 2006. This item was related to the loan liability following the acquisition of JoEl, Inc. effective October 1, 2004 while the assets acquired are presented in property, plant and equipment. During the year 2006 to date a combined total of options and warrants of 862,000 have been exercised resulting in proceeds to the Company of \$1,583,134. Total cash balances at June 30, 2006 were \$16,060,396 compared to \$16,885,170 at December 31, 2005.

Management believes that its strategy to establish Cold-Eeze(R) as a recognized brand name, its broader range of products, its diversified distribution methods as it relates to the Health and Wellness business segment, adequate manufacturing capacity, and growth in international sales, together with its current working capital, should provide an internal source of capital to fund the Company's business operations. The Cold Remedy and Health and Wellness segments contribute current expenditure support in relation to the Ethical Pharmaceutical segment. In addition to anticipated funding from operations, the Company and its subsidiaries may in the short and long term raise capital through the issuance of equity securities to finance anticipated growth.

Management is not aware of any trends, events or uncertainties that have or are reasonably likely to have a material negative impact upon the Company's (a) short-term or long-term liquidity, or (b) net sales or income from continuing operations. Any challenge to the Company's patent rights could have a material adverse effect on future liquidity of the Company; however, the Company is not aware of any condition that would make such an event probable.

Management believes that cash generated from operations, along with its current cash balances, will be sufficient to finance working capital and capital expenditure requirements for at least the next twelve months.

CAPITAL EXPENDITURES

Capital expenditures during the remainder of 2006 are not expected to be material.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's operations are not subject to risks of material foreign currency fluctuations, nor does it use derivative financial instruments in its investment practices. The Company places its marketable investments in instruments that meet high credit quality standards. The Company does not expect material losses with respect to its investment portfolio or exposure to market risks associated with interest rates. The impact on the Company's results of a one percentage point change in short-term interest rates would not have a material impact on the Company's future earnings, fair value, or cash flows related to investments in cash equivalents or interest-earning marketable securities.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. The Company is currently undergoing a comprehensive effort in preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. This will involve the documentation, testing and review of our internal controls under the direction of senior management.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

INNERLIGHT INC. VS. THE MATRIX GROUP, LLC

(FOURTH JUDICIAL DISTRICT COURT, UTAH COUNTY, STATE OF UTAH)

On March 13, 2006 Innerlight Inc. filed a declaratory judgment action in the Fourth Judicial District, Utah County, State of Utah, requesting a declaration that there is no valid contract between the parties. The Matrix Group, LLC has alleged there is a contract between the parties obligating Innerlight Inc. to purchase \$750,000 of products for the 12-month period commencing October 18, 2004 and ending October 17, 2005, \$1,500,000 for the period commencing October 18, 2005 and ending October 17, 2006, and for each 12-month period thereafter, through and including October 17, 2013, at least \$4,000,000 of products from The Matrix Group, LLC. The document on which Matrix relies was drafted by Matrix and states that the acceptance of the appointment by distributor (Innerlight Inc.) is conditioned upon distributor's written acceptance of the Company's product price list. No written acceptance of the product price list was ever made by Innerlight Inc.

The Matrix Group, LLC filed a Utah Rule of Civil Procedure 12(b)(3) motion asking that the complaint be dismissed. On July 13, 2006 the Court for the Fourth Judicial District, Utah County, State of Utah, entered an order denying defendant's motion to dismiss under Rule 12(b)(3) based on Innerlight's assertion that a material condition precedent remains to be satisfied to establish an enforceable agreement between the parties. The Utah County Court has maintained jurisdiction of this action to make a final determination on the merits of Innerlight's claim.

THE MATRIX GROUP, LLC VS. INNERLIGHT, INC.

(U.S. DISTRICT COURT FOR THE SOUTHERN DISTRICT OF FLORIDA)

On July 6, 2006 The Matrix Group, LLC commenced an action against Innerlight, Inc. in the United States District Court for the Southern District of Florida. The action brought by The Matrix Group, LLC relates to the same facts and circumstances as the action commenced in March of 2006 by Innerlight, Inc. against The Matrix Group, LLC in Utah County, Utah. The Matrix Group, LLC is claiming that according to the terms of the alleged contract, Innerlight has the obligation to purchase \$28,750,000 of additional product from April 6, 2006 through October 17, 2013 and that The Matrix Group, LLC is entitled to a judgment against Innerlight, Inc. for alleged obligations to purchase product in the amount of \$744,050 from the period of October 18, 2005 through April 17, 2006. Innerlight, Inc. based upon the outstanding action in Utah County, Utah, has filed a motion with the United States District Court for the Southern District of Florida for a stay of the action in Florida or transfer of the action.

The company believes that the plaintiff's (The Matrix Group, LLC) claims are without merit and is vigorously defending those claims and is prosecuting its action on its complaint. Based upon the information the Company has at this time, it believes that the plaintiff's actions are without merit. However, at this time no prediction as to the outcome can be made.

PAIGE D. DAVISON VS. THE QUIGLEY CORPORATION

On February 26, 2004, the plaintiff filed an action against The Quigley Corporation (the "Company"), which was not served until April 5, 2004. The action alleges that the plaintiff suffered certain losses and injuries as a result of using the Company's nasal spray product. Among the allegations of the plaintiff are that the nasal spray was defective and unreasonably dangerous, lacked proper and adequate warnings and/or instructions, and was not fit for the purposes and uses intended. Discovery is continuing and trial is scheduled for early 2007.

The Company has investigated the claims and believes they are without merit. The Company believes plaintiff's claims are without merit and is vigorously defending those claims. Based upon the information the Company has at this time, it believes the action will not have a material impact to the Company. However, at this time no prediction as to the outcome can be made. Defense counsel takes the position that the science proposed in the litigation appears to be more advanced than the science which exists in peer reviewed medical journals. Whether the court will admit the testimony relating to the science behind plaintiff's claims, is not a matter which we can predict at this time.

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CYNTHIA AARON VS. THE QUIGLEY CORPORATION, ET AL

On March 15, 2005, a complaint was filed in the Superior Court for San Diego County, California. This complaint was served on the Company on April 21, 2005. The plaintiff's complaint consists of causes of action sounding in negligence, negligent products liability, breach of warranty of merchantability, breach of express warranty, strict products liability and failure to warn. The action alleges that the plaintiff suffered certain losses and injuries as a result of using the Company's nasal spray product. Trial is scheduled for early 2007.

The Company believes plaintiff's claims are without merit and is vigorously defending those claims. Based upon the information the Company has at this time, it believes the action will not have a material impact on the Company. However, at this time no prediction as to the outcome can be made. Insurance defense counsel has informed the Company that counsel is unable to evaluate the likelihood of an unfavorable outcome at this time. Defense counsel takes the position that the science proposed in the litigation appears to be more advanced than the science which exists in peer reviewed medical journals. Whether the court will admit the testimony relating to the science behind plaintiff's claims, is not a matter which we can predict at this time.

POLSKI VS. THE QUIGLEY CORPORATION

On August 12, 2004, plaintiff filed an action against The Quigley Corporation in the District Court for Hennepin County, Minnesota, which was not served until September 2, 2004. On September 17, 2004, the Company removed the case to the United States District Court for the District of Minnesota. The action alleges that plaintiff suffered certain losses and injuries as a result of the Company's nasal spray product. Among the allegations of plaintiff are negligence, products liability, alleged breach of express and implied warranties, and an alleged breach of the Minnesota Consumer Fraud Statute. Discovery should be completed in this matter within 120 days and trial is scheduled for December 2006.

The Company has investigated the claims and believes that they are without merit. The Company believes plaintiff's claims are without merit and is vigorously defending those claims. Based upon the information the Company has at this time, it believes the action will not have a material impact to the Company. However, at this time no prediction as to the outcome can be made. Defense counsel takes the position that the science proposed in the litigation appears to be more advanced than the science which exists in peer reviewed medical journals. Whether the court will admit the testimony relating to the science behind plaintiff's claims, is not a matter which we can predict at this time.

TERMINATED LEGAL PROCEEDINGS

RICHARD FLYNN VS. THE QUIGLEY CORPORATION, ET AL

On May 20, 2005, a complaint was filed in the Superior Court of Orange County, California. The action alleged that the plaintiff suffered certain losses and injuries as a result of using the Company's nasal spray product. The complaint consisted of causes of action sounding in negligence, products liability, and punitive damages. The lawsuit has been resolved in exchange for the payment of a nominal sum out of insurance proceeds at the direction of the insurance carrier. The appropriate court filings are being finalized.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders of the Company was held on June 27, 2006 with

12,480,478 shares eligible to vote. The presence of a quorum was reached and the following proposals were approved by the stockholders:

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- (i) To elect a Board of Directors to serve for the ensuing year until the next Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified.
- (ii) To ratify the appointment of Amper, Politziner & Mattia, P.C. as independent auditors for the year ending December 31, 2006.

For proposals (i) and (ii) above, the votes were cast as follows:

Proposal	Position	For	Against	Withhold Authority	Abstentions	Broker Non-Votes

(i) By nominee:						
Guy J. Quigley	Chairman of the Board, President, CEO	11,364,472		417,224		
Charles A. Phillips	Executive Vice President, COO and Director	11,392,272		389,424		
George J. Longo	Vice President, CFO and Director	11,364,472		417,224		
Jacqueline F. Lewis	Director	11,395,272		386,424		
Rounseville W. Schaum	Director	11,388,972		392,724		
Stephen W. Wouch	Director	11,399,322		382,374		
Terrence O. Tormey	Director	11,397,322		384,374		

(ii) Amper, Politziner & Mattia, P.C.	Independent Auditors	11,453,327	324,551		3,817	-

ITEM 6. EXHIBITS

- (1) Exhibit 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (2) Exhibit 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (3) Exhibit 32.1 Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (4) Exhibit 32.2 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE QUIGLEY CORPORATION

By: /s/ George J. Longo

George J. Longo
Vice President, Chief Financial Officer

Date: August 3, 2006

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CERTIFICATIONS

I, Guy J. Quigley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Quigley Corporation, a Nevada corporation (the "registrant");

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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 3, 2006

By: /s/ Guy J. Quigley

Guy J. Quigley
Chief Executive Officer

CERTIFICATIONS

I, George J. Longo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Quigley Corporation, a Nevada corporation (the "registrant");

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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 3, 2006

By: /s/ George J. Longo

George J. Longo
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss.1350)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss.1350), the undersigned, Guy J. Quigley, the Chief Executive Officer of The Quigley Corporation, a Nevada corporation (the "Company"), does hereby certify, to his knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 of the Company (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Guy J. Quigley

Guy J. Quigley
Chief Executive Officer
August 3, 2006

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss.1350)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss.1350), the undersigned, George J. Longo, the Chief Financial Officer of The Quigley Corporation, a Nevada corporation (the "Company"), does hereby certify, to his knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 of the Company (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George J. Longo

George J. Longo
Chief Financial Officer
August 3, 2006