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INTEGRATED BIOPHARMA INC
Form 10-Q
May 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2007

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 000-28876

INTEGRATED BIOPHARMA, INC.
(Exact name of registrant in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-2407475
(I.R.S. Employer
Identification No.)

225 Long Ave., Hillside, New Jersey 07205
(Address of principal executive offices) (Zip Code)

(888) 319-6962
(Registrant's telephone number, including Area Code)

Not Applicable
(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 and 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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

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Yes | |

No |X|

The number of shares outstanding of each of the Registrant's classes of common equity, as of the latest practicable date:

Class	Outstanding at April 30, 2007
Common Stock, \$0.002 par value	13,793,981 Shares

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT For the Quarterly Period Ended March 31, 2007 INDEX

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Disclosure Regarding Forward-Looking Statements

Certain statements in the Quarterly Report on Form 10-Q may constitute "forward-looking" statements as defined in Section 27A of the Securities Act of 1933 (the "Securities Act"), Section 21E of the Securities Act of 1934 (the "Exchange Act"), the Private Securities Litigation Reform Act of 1995 (the "PSLRA") or in releases made by the Securities and Exchange Commission, all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Integrated BioPharma, Inc. or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that are not historical fact are forward-looking statements. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as the words, "plan", "believe", "expect", "anticipate", "intend", "estimate", "project", "may", "will", "would", "could", "should", "seeks", or "scheduled to", or other similar words, or the negative of these terms or other variations of these terms or comparable language, or by discussion of strategy or intentions. These cautionary statements are being made pursuant to the Securities Act, the Exchange Act and the PSLRA with the intention of obtaining the benefits of the "safe harbor" provisions of such laws. The Company cautions investors that any forward-looking statements made by the Company are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements with respect to the Company, include, but are not limited to, the risks and uncertainties affecting its businesses described in Item 1 of the Company's Annual Report filed on Form 10-K for the year ended June 30, 2006 and in registration statements and other securities filings by the Company.

Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, actual results could differ materially from a projection or assumption in any of its forward-looking statements, are subject to change and inherent risks and uncertainties. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date hereof and the Company does not have or undertake any obligation to update or revise any forward-looking statements whether as a result of new information, subsequent events or otherwise, unless otherwise required by law.

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ITEM 1. FINANCIAL STATEMENTS

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Three months ended
March 31,

2007	2006
-----	-----

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Sales, net	\$ 16,425,672	\$ 12,936,092
Cost of sales	11,519,725	8,642,898
Gross profit	4,905,947	4,293,194
Selling and administrative expenses	4,376,164	4,225,559
Operating income	529,783	67,635
Other expense	(179,271)	(50,118)
Income before income taxes	350,512	17,517
Federal and state income tax	228,528	30,155
Income (loss) before minority interest	121,984	(12,638)
Minority interest	-	22,149
Net income	121,984	9,511
Deemed dividend from beneficial conversion feature of Series B Preferred stock dividend	(20,835)	(671,143)
Series B Preferred stock dividends	(4,316)	(117,648)
Net income (loss) applicable to common shareholders	\$ 96,833	\$ (779,280)
Net income (loss) per common share:		
Basic	\$ 0.01	\$ (0.06)
Diluted	\$ 0.01	\$ (0.06)
Weighted average common shares outstanding	13,684,381	# 12,798,048
Dilutive potential shares:		
Warrants and options	3,066,833	-
Convertible preferred stock	-	-
Weighted average common share outstanding		
- assuming dilution	16,751,214	12,798,048

See accompanying notes to condensed consolidated financial statements.

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	(Unaudi
Assets	
Current Assets:	
Cash and cash equivalents	\$ 1,3
Restricted cash	2,0
Accounts receivable, net	7,2
Inventories, net	16,7
Deferred income taxes	3,1
Other current assets	1,6

Total current assets	31,9
Property and equipment, net	4,1
Goodwill	1
Intangible assets, net	5,3
Deferred income taxes	1,7
Security deposits and other assets	1

Total Assets	\$ 43,6
	=====
Liabilities and Stockholders' Equity:	
Current Liabilities:	
Revolving credit facility	\$ 13,5
Note payable - bank	
Accounts payable	3,5
Accrued expenses and other current liabilities	2,8
State income taxes payable	9
Loan payable - Trade Investment Services, LLC, related party	

Total Current Liabilities	20,8
Commitments and Contingencies	
Series B 7% Redeemable Convertible Preferred Stock, net of beneficial conversion feature, warrants issued and issuance costs, \$0.002 par value; 1,250 shares authorized; 25 shares issued and outstanding at March 31, 2007 and 675 shares issued and outstanding at June 30, 2006; liquidation preference of \$250,000 at March 31, 2007 and \$6,750,000 at June 30, 2006	2
Minority Interest	
Stockholders' Equity:	
Common Stock, \$0.002 par value; 25,000,000 shares authorized; 13,793,981 shares issued at March 31, 2007 and 13,200,961 at June 30, 2006; 13,759,081 shares outstanding at March 31, 2007 and 13,166,061 at June 30, 2006	
Additonal paid-in-capital	34,4
Accumulated deficit	(11,8
Less: Treasury stock, at cost, 34,900 shares	(

Total Stockholders' Equity	22,4

Total Liabilities and Stockholders' Equity	\$ 43,6
	=====

See accompanying notes to condensed consolidated financial statements.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE NINE MONTHS ENDED MARCH 31, 2007

	Common Shares	Stock Par Value	Additional Paid-in-Capital	Accumulated Deficit	Treasur Shares
	-----	-----	-----	-----	-----
Balance, June 30, 2006	13,200,961	\$ 26,402	\$ 30,580,604	\$ (9,872,742)	34,900
Exercise of stock options for cash	385,800	772	751,959	-	-
Restricted stock issued in connection with asset acquisition	185,000	370	1,092,420	-	-
Restricted stock award	22,220	44	167,579	-	-
Compensation expense for employee stock options	-	-	260,218	-	-
Income tax benefit from exercise of stock options	-	-	381,102	-	-
Dividends paid on Series B preferred stock	-	-	-	(375,220)	-
Deemed preferred dividends from issuance of warrants	-	-	1,178,298	(1,178,298)	-
Deemed dividend from beneficial conversion feature of Series B preferred stock	-	-	-	(1,803,881)	-
Net income	-	-	-	1,387,970	-
	-----	-----	-----	-----	-----
Balance, March 31, 2007 (Unaudited)	13,793,981	\$ 27,588	\$ 34,412,180	\$ (11,842,171)	34,900
	=====	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

Nin

 2007

Cash flows from operating activities:

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Net income	\$	1,387
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization		938
Deferred income taxes		659
Loss on investment in Micro Nutrition, Inc.		171
Allowance for inventory		37
Allowance for doubtful accounts (recoveries)		(22)
Issuance of common stock for consulting services		245
Compensation expense for employee stock options		260
Minority interest		(37)
Changes in assets and liabilities (excludes impact of acquisitions):		
(Increase) decrease in:		
Accounts receivable		(1,441)
Inventories		(5,780)
Prepaid expenses and other current assets		(153)
Security deposits and other assets		(41)
(Decrease) increase in:		
Accounts payable		(565)
Income taxes payable		336
Accrued expenses and other liabilities		72

Net cash (used in) provided by operating activities		(3,932)

Cash flows from investing activities:		
Purchase of property and equipment		(656)
Purchase of intangible assets		(523)
Cash acquired in asset acquisition		2
Loss on disposal of investment in Micro Nutrition, Inc.		(38)

Net cash used in investing activities		(1,214)

Cash flows from financing activities:		
Proceeds from the exercise of stock options		752
Repayments of notes payable-bank		(4,497)
Repayments of notes payable-TIS		(172)
Proceeds from revolving credit facility		18,000
Repayments under revolving credit facility		(4,500)
Funding of restricted cash under revolving credit facility		(2,000)
Redemption of Preferred Stock Series B		(6,500)
Dividends paid		(375)

Net cash provided by (used in) financing activities		707

Net (decrease) increase in cash and cash equivalents		(4,439)
Cash and cash equivalents at beginning of period		5,746

Cash and cash equivalents at end of period	\$	1,307
		=====
Supplemental disclosures of cash flow information:		
Cash paid during the periods for:		
Interest	\$	472
		=====
Income taxes	\$	203
		=====
Supplemental disclosures of Non-cash transactions:		
Deemed dividend from beneficial conversion feature of Series B Preferred stock	\$	(1,803)
		=====
Deemed preferred dividends from issuance of warrants	\$	(1,178)
		=====

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Conversion of Series B Preferred Stock to Common Stock	\$
Restricted stock issued in connection with asset acquisition	\$ 1,092
Restricted stock awards	\$ 167

See accompanying notes to condensed consolidated financial statements.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Principles of Consolidation and Basis of Presentation

The accompanying financial statements for the interim periods are unaudited and include the accounts of the Company and its subsidiaries, all of which are wholly-owned or majority owned with an offset to minority interest. All significant intercompany transactions and balances have been eliminated. The interim financial statements have been prepared in conformity with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission ("SEC") and therefore do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the periods presented have been included. These financial statements should be read in conjunction with the financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2006 ("10-K"), as filed with the SEC. The June 30, 2006 balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the nine months ended March 31, 2007 are not necessarily indicative of the results for the full fiscal year ending June 30, 2007 or for any other period.

The Company is engaged primarily in the manufacturing, distributing, marketing and sales of vitamins, nutritional supplements and herbal products; the manufacture and distribution of paclitaxel, which is the primary chemotherapeutic agent in the treatment of breast cancer; and pharmaceutical technical services through its contract research organization, and the biotechnologies business that uses its patented plant-based technology to produce vaccines and therapeutic antibodies. The Company's customers are located primarily throughout the United States.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The most significant estimates include:

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- o sales returns and allowances;
- o allowance for doubtful accounts;
- o inventory valuation;
- o valuation and recoverability of long-lived and intangible assets and goodwill, including the values assigned to acquired intangible assets;
- o income taxes and valuation allowance on deferred income taxes, and;
- o accruals for, and the probability of, the outcome of current litigation.

On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates. Nothing has come to our attention which would cause a change in these estimates.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Share. In accordance with FASB Statement No. 128, "Earnings Per Share," basic earnings per common share are based on weighted average number of common shares outstanding. Diluted earnings per share amounts are based on the weighted average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed exercise of all potentially dilutive stock options, warrants and convertible preferred stock, subject to antidilution limitations.

During the nine months ended March 31, 2007 and the three month period ended March 31, 2006, options and warrants to purchase 4,379,518 and 5,623,548 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share as they were antidilutive as a result of net losses available to common shareholders during the period. During the three months ended March 31, 2007 and the nine month period ended March 31, 2006, 4,379,518 and 5,623,548 options and warrants to purchase shares of common stock with exercise prices below average market price were included in the computation of diluted earnings per share.

During the three and nine months ended March 31, 2007, Convertible Series B Preferred Stock in the amount of 250,000 common share equivalents were not included in the computation of diluted earnings per share as they were antidilutive as a result of net losses available to common shareholders. During the three and nine months ended March 31, 2006, 700,000 common share equivalents were not included in the computation of diluted earnings per share as their conversion price was greater than the average market price of the common shares.

During the three and nine months ended March 31, 2007 and 2006, options and warrants to purchase 1,629,500 shares of common stock and 1,369,500 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because their exercise price was greater than the average market price of the common shares.

Recent Accounting Pronouncements

In July 2006, the FASB issue FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that we recognize in our financial statements, the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The provisions of FIN 48 will be effective for us as of the beginning of our fiscal year ending June 30, 2008,

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with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

In September 2006, the FASB issue SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 17, 2007 and interim periods within those fiscal years. We are evaluating the impact of adopting SFAS 157 on our consolidated financial position, results of operations and cash flows.

Note 2. Acquisition

On March 5, 2007, we entered into an Asset Purchase Agreement (the "Agreement") with our wholly-owned subsidiary Bioscience Technologies, Inc. ("BTI"), BevSpec, Inc., a Texas corporation ("BevSpec"), the shareholders of BevSpec (the "Shareholders") and certain other parties (together with the Shareholders, the "Seller Parties") pursuant to which BTI acquired substantially all of the assets of BevSpec (the "Transferred Assets") and assumed certain payment obligations of BevSpec (the "Payment Obligations"). We paid approximately \$307,600 to specified parties to satisfy the Payment Obligations. In addition, we issued 185,000 shares of our common stock (the "Share Consideration") to the Seller Parties. The Agreement was effective as of February 28, 2007. The Share Consideration is subject to a twelve-month lock-up and shall be held in escrow for such time to satisfy any indemnification obligations of the Seller Parties. The Seller Parties indemnification obligations for any breach of the Seller Parties representations and warranties in the Agreement are limited to the aggregate value of the Share Consideration held in escrow. The Seller Parties representations and warranties shall survive for a period of one year following the date of the Agreement.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The purchased assets include trademarks, copyrights, trade secrets, artwork, graphics, marketing materials, formulas for the acquired product lines, labels, customer lists, websites, goodwill, inventories and certain books and records. Pursuant to the terms of the Agreement the purchase price for the Transferred Assets was valued at approximately \$1.4 million and was paid with the issuance of 185,000 shares of the Company's common stock valued at \$1.1 million and the assumption of approximately \$342,000 in assumed liabilities and associated costs of the acquisition. As of March 31, 2007, the Company anticipates that a substantial portion of the purchase price allocation will be allocated to the various intangible assets acquired.

The sales for the acquired product lines for the nine months ended March 31, 2007 and 2006, were approximately \$160,000 and 170,000, respectively, and were distributed primarily through grocery store outlets.

Subsequent to the acquisition BTI changed its name to The Organic Beverage Company.

Note 3. Goodwill and other Intangible Assets

Goodwill and intangibles with indefinite lives are tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit

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below its carrying value. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The Company performed its annual impairment test during the fourth quarter of fiscal 2006. As of March 31, 2007 and June 30, 2006, goodwill consisted of \$145,410 from the Aloe Acquisition.

Other definite lived intangibles are amortized on a straight-line basis over periods not exceeding 20 years. The carrying amount of acquired intangible assets as of March 31, 2007 and June 30, 2006 is as follows:

	March 31, 2007			June 30, 2006	
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization
Intellectual property	\$ 2,200,000	\$ 424,582	\$ 1,775,418	\$ 1,850,000	\$ 271,000
Trade names and patents	3,293,510	295,735	2,997,775	1,749,135	216,000
Unpatented technology	547,000	210,000	337,000	547,000	179,000
License agreement	347,000	71,853	275,147	637,467	100,000
Total	\$ 6,387,510	\$ 1,002,170	\$ 5,385,340	\$ 4,783,602	\$ 768,000
	=====	=====	=====	=====	=====

During the nine month period ended March 31, 2007, the Company made payments of \$350,000 under its intellectual property agreement with the Center for Molecular Biotechnology of Fraunhofer USA, Inc. entered into in January 2004, and subsequent amendments thereto. Amortization expense, recorded on other intangible assets for the three and nine months ended March 31, 2007 and 2006, was \$97,314 and \$87,584, and \$284,905 and \$235,693, respectively. Amortization expense is recorded on the straight-line method over periods ranging from 10 years to 20 years. During the nine months ended March 31, 2007, the Company disposed of license agreements owned by Micro Nutrition, Inc. in the amount of \$239,728 in connection with its disposition of Micro Nutrition, Inc.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The estimated annual amortization expense for intangible assets for the five succeeding fiscal years is as follows:

Year Ending June 30,	Amortization Expense
2007, remaining	\$ 154,200
2008	488,000
2009	488,000
2010	488,000
2011	488,000
Thereafter	3,279,140
Total	\$ 5,385,340

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Note 4. Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method and consist of the following as of March 31, 2007 and June 30, 2006:

	March 31, 2007	June 30, 2006
	-----	-----
Raw materials	\$ 8,060,678	\$ 5,484,485
Work-in-process	1,787,957	1,803,532
Finished goods	6,859,487	3,684,826
	-----	-----
Total	\$ 16,708,122	\$ 10,972,843
	=====	=====

Note 5. Property and Equipment

Property and equipment consists of the following as of March 31, 2007 and June 30, 2006:

	March 31, 2007	June 30, 2006
	-----	-----
Land and building	\$ 1,250,000	\$ 1,250,000
Leasehold improvements	2,194,881	2,157,321
Machinery and equipment	7,094,662	6,544,096
Transportation equipment	67,847	37,714
	-----	-----
	10,607,390	9,989,131
Less: Accumulated depreciation and amortization	(6,439,445)	(5,815,774)
	-----	-----
Total	\$ 4,167,945	\$ 4,173,357
	=====	=====

Note 6. Note and Loan Payable

Note payable is a promissory note provided by Bank of America dated August 6, 2003 in the amount of \$4.5 million with interest at a variable rate based on 1.25% over the current LIBOR rate. The loan was renewed through January 4, 2007 under the existing terms and conditions of the Note. The Note was guaranteed by Mr. Carl DeSantis, a shareholder and director of the Company. As of June 30, 2006 the interest rate was 6.60%.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Loan payable-Trade Investment Services was a demand loan provided by Trade Investment Services, LLC ("TIS"), a former shareholder of Paxis, dated July 1, 2002 with interest at 9.00%. The Company had accrued and unpaid interest of \$45,661 as of June 30, 2006.

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In September 2006, the Company repaid the Note and Loan Payable with proceeds from a \$15.0 million revolving credit facility it secured with a bank. (See Note 7. Revolving Credit Facility.)

Note 7. Revolving Credit Facility and Restricted Cash

On September 1, 2006, the Company entered into a loan agreement with Amalgamated Bank, (the "Bank") a financial institution. The loan agreement provides for a one-year secured revolving credit facility of up to \$15.0 million. Concurrently, the Company repaid its \$4.5 million note to the Bank of America, its obligation to Trade Investments Services, LLC and other miscellaneous obligations, including the costs associated with securing the facility with \$5.0 million of borrowings under the facility (See Note 6. Note and Loan Payable). As of March 31, 2007, the Company borrowed net additional funds aggregating \$8.5 million under this facility and as of March 31, 2007 had \$13.5 million outstanding under this facility. In April 2007, the Company entered into a separate \$10.0 million five-year term note with the Bank and extended the maturity date under this facility to October 31, 2007. See Note 13. Subsequent Event.

The interest rate under the credit facility is equal to, at the Company's option, either (1), the lender's publicly announced base rate, or (2) 1.5% plus the applicable LIBOR rate. Interest is payable monthly, quarterly or semi-annually, at the Company's election, in arrears not later than the end of each such period. As of March 31, 2007, the weighted average interest rate was 6.90% and the Company had accrued and unpaid interest of approximately \$126,000. The facility also has a commitment fee equal to 0.50% per annum calculated on the unused amount of the facility. As of March 31, 2007, the Company had approximately \$11,100 in accrued and unpaid commitment fees.

The credit facility requires that all principal be repaid in full on the first anniversary of the closing date, which may be extended for up to one year at the lender's option. The facility is secured by a first priority lien on our accounts receivable, equipment, inventory and certain deposit accounts.

The credit facility contains covenants restricting our ability to, among other things: (1) incur or guarantee additional debt; (2) make any investments (other than in the ordinary course of business); (3) engage in any asset sales or dispose of any assets (other than in the ordinary course of business); (4) engage in transactions with affiliates; (5) incur liens; and (6) declare or pay dividends on its common stock. The credit facility also requires us not to exceed a maximum total leverage ratio, to maintain a minimum consolidated earnings before income taxes and depreciation and amortization ("EBITDA"), to maintain a minimum fixed charge coverage ratio and to maintain a minimum deposit balance with the lender (unless certain revenue and EBITDA thresholds are met). On September 1, 2006, the Company deposited \$2.0 million with the lender to satisfy this covenant.

The credit facility also provides for customary events of default, including non-payment defaults and covenant defaults. The Company was in compliance with its loan covenants from inception (September 1, 2006) through March 31, 2007.

Note 8. Significant Risks and Uncertainties

(a) Concentrations of Credit Risk-Cash. The Company maintains balances at several financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At March 31, 2007, the Company's uninsured cash balances were approximately \$2.8 million.

(b) Concentrations of Credit Risk-Receiveables. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit

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risk exposure beyond such allowances is limited. The Company does not require collateral in relation to its trade accounts receivable credit risk. The amount of the allowance for uncollectible accounts and other allowances at March 31, 2007 and June 30, 2006 is \$102,672 and \$125,013, respectively.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(c) Major Customers. For the nine months ended March 31, 2007, approximately 28% or \$14.1 million, 27% or \$13.6 million and 20.5% or \$10.3 million of revenues were derived from three customers. For the nine months ended March 31, 2006, approximately 44% or \$19.4 million, 24% or \$10.6 million and 20% or \$8.7 million of revenues were derived from three customers. For the three months ended March 31, 2007, approximately 28% or \$4.6 million, 27.6% or \$4.5 million and 19% or \$3.1 million of revenues were derived from three customers. For the three months ended March 31, 2006, approximately 64% or \$9.1 million, 24% or \$3.4 million and 8% or \$1.2 million of revenues were derived from three customers. The loss of any of these customers would have an adverse affect on the Company's operations. Accounts receivable from these three customers comprised approximately 46% of total accounts receivable at March 31, 2007.

(d) Business Risks. The Company insures it business and assets against insurable risks, to the extent that it deems appropriate, based upon an analysis of the relative risks and costs.

The raw materials used by the Company are primarily commodities and agricultural-based products. Raw materials used by the Company in the manufacture of its nutraceutical products are purchased from independent suppliers. Raw materials are available from numerous sources and the Company believes that it will continue to obtain adequate supplies.

Approximately 32% of the Company's employees, located in its New Jersey facility, are covered by a union contract. The contract was renewed in August 2006 and will expire in August 2010.

Note 9. Commitments and Contingencies

(a) Leases

Related Party Leases- Warehouse and office facilities are leased from Vitamin Realty Associates, L.L.C., a limited liability company, which is 90% owned by the Company's chairman, president and principal stockholder and certain family members and 10% owned by an employee of the Company. The lease provides for minimum annual rental of \$323,559 through May 31, 2015 plus increases in real estate taxes and building operating expenses. On July 1, 2004, the Company leased an additional 24,810 square feet of warehouse space on a month-to-month basis. Rent expense, for the three and nine months ended March 31, 2007 and 2006, on these leases were \$193,000 and \$226,000 and \$550,000 and \$547,000, respectively, and is included in both manufacturing and selling and administrative expenses.

Other Lease Commitments- The Company leases manufacturing and office facilities through March 31, 2012. The lease was effective on April 1, 2002 and provided for minimum monthly rental of \$32,500 per month through March 31, 2007 plus increases in real estate taxes and building operating expenses. At its option, the Company has the right to renew the lease for an additional five-year period. On August 27, 2002, the lease was amended reducing the square footage from approximately 32,500 to 22,500 and reducing the monthly rent to \$22,483 per month for the balance of the lease. The Company exercised its option to renew

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its lease for another five years with minimum monthly rent of \$19,673 through March 31, 2008 with annual increases equal to cost of living adjustments as defined in the lease. The Company also extended its rights to renew the lease for an additional five-year period through March 2017. Rent expense, for the three and nine months ended March 31, 2007 and 2006, was \$81,000 and \$93,000 and \$265,000 and \$290,000, respectively and is included in manufacturing expenses.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company leases warehouse and office facilities through March 31, 2007. The lease was effective on March 6, 2004, and provides for a minimum monthly rental of \$9,967. The Company extended this lease through May 2007 and entered into a new lease which provides for a minimum monthly rental of \$15,500 for warehouse and office space of 39,038 square feet through August 2012. In September 2006, the Company leased additional warehouse space under a three-year lease commitment with minimum monthly rental payments of \$12,008. The Company leases additional office space on a month-to-month basis; minimum monthly rental payments are \$1,126. The lease was effective on October 1, 2005, and provides for a minimum monthly rental of \$1,126. The company leases office space through December 31, 2012, and provides for a minimum monthly rental of \$18,611. The Company leases warehouse equipment for a five (5) year period with an annual rental of \$17,000 and office equipment for a five (5) year period with an annual rental of \$8,400.

The Company leases automobiles under non-cancelable operating lease agreements, which expire through 2009.

The minimum rental commitment for long-term non-cancelable leases is as follows:

Year ending June 30,	Lease Commitments	Related Party Lease Commitments	Total
-----	-----	-----	-----
2007, remaining	\$ 206,300	\$ 80,900	\$ 287,200
2008	839,000	323,600	1,162,600
2009	801,600	323,600	1,125,200
2010	657,700	323,600	981,300
2011	627,300	323,600	950,900
Thereafter	748,200	1,267,100	2,015,300
	-----	-----	-----
Total	\$ 3,880,100	\$ 2,642,400	\$ 6,522,500
	-----	-----	-----

Total rent expense, including real estate taxes and maintenance charges, was approximately \$408,000 and \$399,000 and \$1.2 million and \$1.3 million for the three and nine months ended March 31, 2007 and 2006, respectively.

(b) Intellectual Property Agreement - In connection with the acquisition in January 2004, and subsequent amendments thereto; of intellectual property developed by the Center for Molecular Biotechnology of Fraunhofer USA, Inc., the Company will pay up to a maximum of \$3.2 million for certain technology developed by Fraunhofer USA, Inc. over a five-year period. As of March 31, 2007 and June 30, 2006, \$2.2 million and \$1.9 million, respectively have been paid and is being amortized on a straight-line basis over a ten-year period.

(c) Legal Proceedings - NatEx Georgia LLC and Vasili Patarkalishvili v. Robert B. Kay, E. Gerald Kay, Trade Investment Services, LLC, Paxis Pharmaceuticals,

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Inc., Dean P. Stull and Integrated BioPharma, Inc., pending in the Supreme Court for the State of New York, New York County. Plaintiffs NatEx Georgia LLC and Vasili Patarkalishvili commenced this action on July 19, 2004, alleging claims for breach of contract, fraud and breach of the implied duty of good faith and fair dealing arising out of an alleged failure by Paxis to provide information necessary for NatEx to perform under the parties' agreements by which NatEx had agreed to supply Paclitaxel extract. The complaint seeks damages of more than \$5.0 million. By order dated January 6, 2006, the Court granted in part Defendants' motion to dismiss. The Court dismissed all of the claims against all defendants, except for the breach of contract claim against Paxis. Plaintiffs filed a notice of appeal of that decision. On April 17, 2007, the Supreme Court, Appellate Division, First Department dismissed Plaintiffs' appeal for failure to perfect. Certain of the Defendants, including the Company, have filed counter-claims against Plaintiffs for breach of a July 2003 agreement with NatEx and to collect on an \$1.3 million note, though the Company is doubtful of collection on that note. Paxis plans to defend vigorously the remaining claim and prosecute its claims.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Related Party Transactions

The Company has a consulting agreement with Eugene Kay, a former employee of the Company and a brother of E. Gerald Kay, the Company's Chairman of the Board. This agreement is on a month-to-month basis for \$1,100 per month. Effective January 1, 2007 this agreement was modified to provide for \$1,200 per month. The total consulting expense recorded per this verbal agreement for the three months and nine months March 31, 2007 and 2006 was \$3,600 and \$10,200 and \$3,300 and \$9,900, respectively. The Company has another consulting agreement with EVJ, LLC, a limited liability company controlled by Robert Kay, a director of the Company, the Chairman of its subsidiary, InB: Paxis, and a brother of E. Gerald Kay and Eugene Kay. This agreement was assumed by and became a liability of the Company as a part of the Company's acquisition of Paxis Pharmaceuticals Inc. in fiscal year ended June 30, 2004. The total consulting expense under this agreement was \$30,000 for the three months ended March 31, 2007 and 2006 and \$90,000 for the nine months ended March 31, 2007 and 2006.

Note 11. Equity Transactions

(a) Stock Option Plan and Warrants - On February 7, 2007, the Company granted 124,000 incentive stock options for a period of ten years, vesting over three years, at an exercise price equal to the market price ranging from \$6.80 to \$7.48. The Company did not grant any stock options in the three month period ended March 31, 2006.

Additionally, on February 7, 2007, the Company granted Restricted Stock Unit Awards ("RSU") representing 341,647 shares of the Company's common stock. The RSUs vest equally over a three-year period on their vesting anniversary date and are subject to forfeiture and were valued at \$6.80 each.

(b) Restricted Stock Award - On August 3, 2006, the Company entered into a separate one-year financial services agreement with a financial advisor whereby it is to issue an initial 12,500 shares of its common stock and will issue additional shares worth \$15,000, on a monthly basis, calculated on the third day of each month by dividing \$15,000 by the prior ten (10) day volume-weighted average closing share price of the common stock of the Company.

As of March 31, 2007, the Company issued 22,220 shares of its common stock under

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this agreement. This Agreement was terminated in January 2007.

The shares of common stock have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and were issued and sold in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act and Regulation D promulgated thereunder. These shares of common stock may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements under the Securities Act.

(c) Series B Redeemable Convertible Preferred Stock - On October 16, 2006, the Company redeemed 650 shares of its Series B Redeemable Convertible Preferred Stock ("Preferred Stock") at a redemption price of \$6.7 million. In addition to the cash consideration, equal to the face amount of the Preferred Stock and the related dividend, the Company also agreed to issue to the holder 100,000 additional Warrants to purchase common stock of the Company at a purchase price of \$12 per share exercisable until October 2011 and agreed to adjust the Warrants issued in 2004 in connection with the initial purchase of the Preferred Stock to conform to the new Warrants. The amended Warrants issued in 2004, along with the additional Warrants issued in October 2006, resulted in additional non-cash dividends on the Preferred Stock of approximately \$1.2 million.

The early redemption of the Preferred Stock extinguished all rights and preferences pertinent to the 650 shares of Preferred Stock, including actual dividends, deemed dividends (which are required to be deducted in the calculation of net income attributable to common shareholders and resulted in decreases in net income of approximately \$2.3 million in each of the last two fiscal years), liquidation preferences and the right to convert the Preferred Stock into 650,000 shares of the Company's common stock at \$10 per share. Subsequent to this redemption, only 25 shares of Preferred Stock held by another party remain outstanding. These remaining shares were redeemed for \$250,000.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

The Company has divided its operations into three reportable segments as follows: Nutraceuticals, Pharmaceuticals and Biotechnologies. The international sales, concentrated primarily in Mexico and Europe, for the three and nine months ended March 31, 2007 and 2006, were \$2.2 million and \$3.3 million and \$10.7 million and \$7.6 million, respectively.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Financial information relating to, the three and nine months ended March 31, 2007 and 2006, operations by business segment is as follows:

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For the Three Months Ended
March 31,

	2007					
	Nutra- ceuticals	Pharma- ceuticals	Biotech- nologies	Total	Nutra- ceuticals	Ph ceu
Sales, net						
U.S. customers	\$ 13,044,807	\$ 846,999	\$ 309,435	\$ 14,201,241	\$ 9,001,556	\$
International customers	1,843,477	380,954	-	2,224,431	3,310,934	
Total Sales, net	<u>\$ 14,888,284</u>	<u>\$ 1,227,953</u>	<u>\$ 309,435</u>	<u>\$ 16,425,672</u>	<u>\$ 12,312,490</u>	<u>\$</u>
Segment operating profit (loss)	<u>\$ 1,550,289</u>	<u>\$ (837,441)</u>	<u>\$ (183,065)</u>	<u>\$ 529,783</u>	<u>\$ 1,409,165</u>	<u>\$ (</u>
Depreciation	<u>\$ 90,375</u>	<u>\$ 122,048</u>	<u>\$ 148</u>	<u>\$ 212,571</u>	<u>\$ 116,421</u>	<u>\$</u>
Capital expenditures	<u>\$ 237,216</u>	<u>\$ 46,173</u>	<u>\$ 8,850</u>	<u>\$ 292,239</u>	<u>\$ 72,728</u>	<u>\$</u>

For the Nine Months Ended
March 31,

	2007					
	Nutra- ceuticals	Pharma- ceuticals	Biotech- nologies	Total	Nutra- ceuticals	Ph ceu
Sales, net						
U.S. customers	\$ 35,466,080	\$ 3,364,143	\$ 664,321	\$ 39,494,544	\$ 31,070,527	\$ 2,
International customers	9,786,695	907,751	-	10,694,446	7,537,465	
Total Sales, net	<u>\$ 45,252,775</u>	<u>\$ 4,271,894</u>	<u>\$ 664,321</u>	<u>\$ 50,188,990</u>	<u>\$ 38,607,992</u>	<u>\$ 2,</u>
Segment operating profit (loss)	<u>\$ 5,805,214</u>	<u>\$ (2,085,907)</u>	<u>\$ (802,223)</u>	<u>\$ 2,917,084</u>	<u>\$ 7,482,407</u>	<u>\$ (3,</u>
Depreciation	<u>\$ 291,359</u>	<u>\$ 362,518</u>	<u>\$ 148</u>	<u>\$ 654,025</u>	<u>\$ 262,864</u>	<u>\$</u>
Capital expenditures	<u>\$ 558,567</u>	<u>\$ 88,846</u>	<u>\$ 8,850</u>	<u>\$ 656,263</u>	<u>\$ 128,226</u>	<u>\$</u>

As of March 31,

	2007					
	Nutra- ceuticals	Pharma- ceuticals	Biotech- nologies	Total	Nutra- ceuticals	Ph ceu
Total Assets	<u>\$ 34,051,523</u>	<u>\$ 7,169,523</u>	<u>\$ 2,389,134</u>	<u>\$ 43,610,180</u>	<u>\$ 29,911,297</u>	<u>\$ 5,</u>

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Note 13. Subsequent Event

On April 3, 2007, we entered into a loan agreement with Amalgamated Bank. The loan agreement provides for a five-year secured term credit facility in the amount of \$10.0 million. Borrowings under the facility were used to refinance \$5,000,000 under our existing \$15.0 million revolving credit facility with Amalgamated Bank and the balance for working capital purposes. The initial interest rate on borrowings under the term facility is equal to 3.00% plus the applicable LIBOR rate. Interest is payable monthly, quarterly or semi-annually, at the Company's election, in arrears not later than the end of each such period. The credit facility requires that all principal be repaid in \$1.0 million semi-annual payments beginning October 4, 2007. The facility is secured by a first priority lien on our accounts receivable, equipment, inventory and deposit accounts. The obligations under the term credit facility are also guaranteed by each of our current and future subsidiaries.

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INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The term credit facility contains the same covenants under our \$15.0 million revolving credit facility which restrict our ability to, among other things: (1) incur or guarantee additional debt; (2) make any investments (other than in the ordinary course); (3) engage in any asset sales or dispose of any assets (other than in the ordinary course); (4) engage in transactions with affiliates; (5) incur liens; and (6) declare or pay dividends. The credit facility also requires us not to exceed a maximum total leverage ratio, to maintain a minimum consolidated EBITDA, to maintain a minimum fixed charge coverage ratio and to maintain minimum deposit balances with the lender (unless certain revenue and EBITDA thresholds are met). The credit facility also provides for customary events of default, including non-payment defaults and covenant defaults.

Concurrently, the Company agreed with Amalgamated Bank to amend the term note and loan agreement associated with the \$15.0 million revolving credit facility to, among other things, extend the maturity date of the facility to October 31, 2007.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Certain statements set forth under this caption constitute "forward-looking statements." See "Disclosure Regarding Forward-Looking Statements" on page 1 of this report for additional factors relating to such statements. The following discussion should also be read in conjunction with the Condensed Consolidated Financial Statements of the Company and Notes thereto included elsewhere herein and the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

The Company is engaged primarily in the manufacturing, distributing, marketing and sales of vitamins, nutritional supplements and herbal products; the manufacture and distribution of paclitaxel, which is the primary chemotherapeutic agent in the treatment of breast cancer; and pharmaceutical technical services through its contract research organization. The Company's customers are located primarily throughout the United States.

Critical Accounting Policies and Estimates

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Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The most significant estimates include:

- o sales returns and allowances;
- o allowance for doubtful accounts;
- o inventory valuation;
- o valuation and recoverability of long-lived and intangible assets and goodwill, including the values assigned to acquired intangible assets;
- o income taxes and valuation allowance on deferred income taxes, and;
- o accruals for, and the probability of, the outcome of current litigation.

On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates. There have been no material changes in the calculation of these estimates since the audited financial statements at June 30, 2006.

Allowances for Doubtful Accounts and Sales Returns

The Company makes judgments as to its ability to collect outstanding receivables and provides allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. The Company continuously monitors payments from its customers and maintains allowances for doubtful accounts for estimated losses in the period they become known.

The Company's return policy is to only accept returns for defective products. If defective products are returned, it is the Company's agreement with its customers that the Company cure the defect and reship the product. The policy is that when the product is shipped the Company makes an estimate of any potential returns or allowances.

If the historical data the Company uses to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected. In recording any additional allowances, a respective charge against income is reflected in the general and administrative expenses, and would reduce the operating results in the period in which the increase is recorded.

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We performed a sensitivity analysis to determine the impact of fluctuations in our estimates for our allowance for doubtful accounts. As of March 31, 2007 the allowance was \$102,672. If this number were in error by plus or minus one percent of the account receivable balance, the impact would be an additional \$73,000 of income or expense.

Inventory Valuation

Inventories are stated at the lower of cost or market ("LCM"), which reflects

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management's estimates of net realizable value. The inventory amounts are composed primarily of inventory items in both the nutraceutical and pharmaceutical segments of business. As a result of our nutraceutical inventory being manufactured primarily on a purchase order basis, the quantity of both raw materials and finished goods inventory provides for minimal risk for potential overstock or obsolescence. Pharmaceutical inventory is valued at market values, which is lower than our cost basis.

Mail order inventory is expiration date sensitive. The Company reviews this inventory and considers sales levels (by SKU), term to expiration date, potential for retesting to extend expiration date and evaluates potential for obsolescence or overstock.

We performed a sensitivity analysis to determine the impact of fluctuations in our estimates for inventory allowances. As of March 31, 2007 the allowance was \$37,500. If this number were in error by plus or minus one percent of the total inventory balance, the impact would be an additional expense of \$167,500.

Long Lived Assets

Purchased intangibles consisting of patents and unpatented technological expertise, intellectual property, license fees and trade names purchased as part of business acquisitions are presented net of related accumulated amortization and are being amortized on a straight-line basis over the remaining useful lives.

The Company records impairment losses on other intangible assets when events and circumstances indicated that such assets might be impaired and the estimated fair value of the asset is less than its recorded amount in accordance with Statement of Financial Accounting Standards ("SFAS") No 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company reviews the value of its long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon certain acquired products, services, or marketplaces, or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable.

Goodwill and Other Intangible Assets - The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets". SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized against earnings, but instead tested for impairment at least annually based on a fair-value approach as described in SFAS 142.

Intangible assets with finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows. The carrying value of intangible assets with finite lives is evaluated whenever events or circumstances indicate that the carrying value may not be recoverable. The carrying value is not recoverable when the projected undiscounted future cash flows are less than the carrying value. Tests for impairment or recoverability require significant management judgment, and future events affecting cash flows and market conditions could result in impairment losses.

General - The Company recognizes revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin 104. The Company recognizes product sales revenue when title and risk of loss have transferred to the customer, when estimated provisions for product returns, rebates, chargebacks

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and other sales allowances are reasonably determinable, and when collectibility is reasonably assured. Accruals for these items are presented in the condensed consolidated financial statements as reductions to sales. The Company's net sales represent gross sales invoiced to customers, less certain related charges for discounts, returns, rebates, chargebacks and other allowances. Cost of sales includes the cost of raw materials and all labor and overhead associated with the manufacturing and packaging of the products. Gross margins are affected by, among other things, changes in the relative sales mix among the Company's products, as well as gross margins of acquired entities.

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Operating results in all periods presented reflect the impact of acquisitions. The timing of those acquisitions and the changing mix of businesses as acquired companies are integrated into the Company may affect the comparability of results from one period to another.

Results of Operations

The following table sets forth the income statement data of the Company as a percentage of net sales for the periods indicated:

	For the three months ended March 31,		For t end
	2007	2006	2007
Sales, net	100.0%	100.0%	100
Costs and expenses:			
Cost of sales	70.1%	66.8%	68
Selling and administrative	26.6%	32.7%	26
	96.8%	99.5%	94
Income from operations	3.2%	0.5%	5
Other income (expense):			
Interest expense	(1.3%)	(0.6%)	(1
Other income	0.0%	0.1%	0
Interest and investment income	0.1%	0.1%	0
	(1.2%)	(0.4%)	(0
Income before income taxes	2.0%	0.1%	5
Federal and state income taxes	1.4%	0.2%	2
Income (loss) before minority interest	0.7%	(0.1%)	2
Minority interest	-	0.2%	0
Net income	0.7%	0.1%	2
Deemed dividend from beneficial conversion			

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feature of Series B Preferred Stock	(0.1%)	(5.2%)	(3
Series B Preferred Stock dividend	(0.0%)	(0.9%)	(3

Net income (loss) allocable to common shareholders	0.5%	(6.0%)	(3
=====			

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For the nine month period ended March 31, 2007 compared to the nine month period ended March 31, 2006

Sales, net. Sales, net, for the nine months ended March 31, 2007 and 2006 were \$50.2 million and \$40.7 million, respectively, an increase of \$9.5 million or 23.3%. The increase is comprised of the following:

	Nine months ended March 31,		Dollar Incr (Decrease
	2007	2006	2007 vs 20

Nutraceutical - US Customers	\$ 35,466,080	\$ 31,070,527	\$ 4,3
Nutraceutical - International Customers	9,786,695	7,537,465	2,2

Total Nutraceutical	45,252,775	38,607,992	6,6

Pharmaceutical - US Customers	3,364,143	2,023,203	1,3
Pharmaceutical - International Customers	907,751	46,256	8

Total Pharmaceutical	4,271,894	2,069,459	2,2

Biotechnologies	664,321	14,042	6

Total	\$ 50,188,990	\$ 40,691,493	\$ 9,4
=====			

N/M = not meaningful

This increase is primarily the result of an increase in our Nutraceutical Segment sales of approximately 17.2% or \$6.6 million. Our international sales increased by \$2.2 million, representing 33.8% of the increased sales in our Nutraceutical Segment, as a result of increased sales to Mexico from our contract manufacturing business. Our sales to US Customers increased in our Nutraceuticals Segment by \$4.4 million and is offset, in part, by an increase in our promotional advertising cost of \$2.8 million, from \$2.9 million in the nine months ended March 31, 2006 to \$5.7 million in the nine months ended March 31, 2007, absent these advertising costs, sales to US Customers increased by \$6.3 million or 18.1%. Promotional advertising consists of participation in strategic product placement programs, offering manufacturing coupons at point of sale and other sales incentives in order to increase our brand awareness and increased sales in the distribution outlets where our products are sold.

Pharmaceuticals sales for the nine months ended March 31, 2007 were \$4.3 million

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compared to \$2.1 million for the comparable period. This increase is primarily due to increased sales of approximately \$331,000 of our API in the nine months ended March 31, 2007 compared to the nine months ended March 31, 2006. Additionally, our CRO business had increased sales of approximately \$1.9 million in the nine months ended March 31, 2007 compared to the nine months ended March 31, 2006. These increased sales are a result of the Segment implementing its sales and marketing strategy that it adopted in the fiscal year ended June 30, 2006.

Our Biotechnologies Segment did not significantly contribute to our net sales and gross profits in the nine month periods ended March 31, 2007 and 2006.

For the nine months ended March 31, 2007, approximately 76% of revenues were derived from three customers as compared 88% of revenues for the nine months ended March 31, 2006. The loss of any of these customers would have an adverse affect on our operations. We continue to expand our customer base by expanding from selling our propriety branded nutraceutical products primarily to "club" stores to the retail sales segment and expanding our sales in the international market.

Cost of sales. Cost of sales increased to \$34.2 million for the nine months ended March 31, 2007 as compared to \$26.1 million for the nine months ended March 31, 2006. Cost of sales increased as a percentage of sales to 68% for the nine months ended March 31, 2007 as compared to 64% for the nine months ended March 31, 2006. The increase of approximately four percent (4.0%) in our cost of sales is primarily a result of our increased promotional advertising costs of \$2.8 million in the nine months ended March 31, 2007 to \$5.7 million from \$2.9 million in the nine months ended March 31, 2006, which are netted against sales. If these advertising costs were not netted in sales, our costs of sales as a percentage of sales, as adjusted, would have been 61.1% for the nine months ended March 31, 2007 compared to 59.8% for the nine months ended March 31, 2006.

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Selling and Administrative Expenses. Selling and administrative expenses were \$13.1 million for the nine months ended March 31, 2007, an increase of \$1.9 million or 17.2% as compared with \$11.2 million for the nine months ended March 31, 2006. As a percentage of sales, net, selling and administrative expenses were 26.1% for the nine months ended March 31, 2007 and 27.5% for the prior comparable period. A tabular presentation of the changes in selling and administrative expenses is as follows:

	Nine months ended March 31,		Dollar Increase (Decrease)
	2007	2006	2007 vs 2006
Salaries and employee benefits	\$ 3,150,607	\$ 2,713,960	436,647
Advertising	2,695,646	1,789,979	905,667
Consulting and other professional fees	1,102,789	1,131,799	(29,010)
Indirect expenses	946,132	880,319	65,813
Commissions	903,995	707,408	196,587
Depreciation & Amortization	523,250	459,683	63,567
Insurance	498,486	444,458	54,028
Marketing	476,099	73,161	402,938
Auto, Travel & Entertainment	471,694	568,248	(96,554)
Office	322,361	415,398	(93,037)
Office Rent	316,910	440,637	(123,727)
Compensation expense for			

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employee stock options	260,218	316,413	(56,195)
Research & Development	224,071	244,477	(20,406)
Loss on investment in Micro Nutrition, Inc.	171,529	-	171,529
Other	1,046,390	1,000,971	45,419
	-----	-----	-----
Total	\$ 13,110,177	\$ 11,186,911	\$ 1,923,266
	=====	=====	=====

Salaries and employee benefits increased approximately \$437,000 in the nine months ended March 31, 2007 or 16.1% primarily as a result of hiring an investor relations officer at the end of our fiscal year ended June 30, 2006. In addition to his base salary, in the nine months ended March 31, 2007, this employee earned a performance retention bonuses based on a transaction which occurred in the nine months ended March 31, 2007, his combined compensation was approximately \$300,000 with no comparable expense in the nine months ended March 31, 2006. The balance of the increase of \$137,000 represents a 5.0% increase over salaries and employee benefits in the nine months ended March 31, 2006 as a result of net new employees and general salary increases.

Advertising expense increased approximately \$906,000 or 50.6% in the nine months ended March 31, 2007 as part of our marketing plan to increase advertising to support our proprietary branded nutraceutical products. We spent \$1.5 million in media advertisements such as radio, in store commercials, magazines and newspaper ads in the nine months ended March 31, 2007 compared to \$721,700 in the comparable prior period, an increase of 756,200, and increased other trade advertising expenses by \$149,500.

We also incurred additional marketing expenses of \$403,000 in the nine months ended March 31, 2007 on the design and printing of new marketing materials used in the general marketing of our products as compared to the nine months ended March 31, 2006.

Commissions increased approximately \$196,600 or 27.8%. Commissions as a percentage of sales that commissions are owed was 3.4% of such sales in the nine months ended March 31, 2007 compared to 2.8% of such sales in the nine months ended March 31, 2006. Our commission payout rates range from three to five percent of qualifying sales. The increase in the payout rate from the nine months ended March 31, 2006 to the nine months ended March 31, 2007 is a result of an increase in sales qualifying for a five percent commission payment.

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Other expense, net. Other expense, net was \$372,600 for the nine months ended March 31, 2007 as compared to \$146,700 for the comparable period a year ago. The increase of \$225,800 was primarily attributable to an increase in interest expense of \$303,500 due to the increase in the amount of the debt outstanding, offset in part, by an increase in interest and other income of approximately \$77,700.

Federal and state income tax, net. Federal and state income tax increased from \$95,800 in the nine months ended March 31, 2006 to \$1.2 million in the nine months ended March 31, 2007. Our effective tax rate increased from 2.9% to 46.9%. The dollar amount increase and the increase in our effective tax rates are primarily a result of having deferred and current federal tax expense of approximately \$721,000 in the nine months ended March 31, 2007 with a deferred federal tax benefit of \$39,000 in the nine months ended March 31, 2006, a difference of \$760,000 in our federal tax provision. Secondly our federal and state income taxes, net increased as a result of state taxes of approximately \$340,000 owed in certain states where our subsidiaries file separate tax returns and do not have operating losses from our other subsidiaries to offset their

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taxable income in such states in the nine month period ended March 31, 2007.

Net income. The Company's net income for the nine months ended March 31, 2007 was \$1.4 million as compared to net income of \$3.3 million for the nine months ended March 31, 2006. This decrease in net income of approximately \$1.9 million is primarily the result of an increase in selling and administrative expenses of \$1.9 million, an increase in other expense of approximately \$225,800, and an increase in federal and state income taxes of approximately \$1.1 million offset by an increase in gross profit of approximately \$1.4 million.

For the three month period ended March 31, 2007 compared to the three month period ended March 31, 2006

Sales, net. Sales, net, for the quarter ended March 31, 2007 and 2006 were \$16.4 million and \$12.9 million, respectively, an increase of \$3.5 million or 27.0%. The increase is comprised of the following:

	Three months ended March 31,		Dollar Incre (Decrease)
	2007	2006	2007 vs 2006
Nutraceutical - US Customers	\$ 13,044,807	\$ 9,881,691	\$ 3,163,1
Nutraceutical - International Customers	1,843,477	2,430,799	(587,3
Total Nutraceutical	14,888,284	12,312,490	2,575,7
Pharmaceutical - US Customers	846,999	600,199	246,8
Pharmaceutical - International Customers	380,954	18,332	362,6
Total Pharmaceutical	1,227,953	618,531	609,4
Biotechnologies	309,435	5,071	304,3
Total	\$ 16,425,672	\$ 12,936,092	\$ 3,489,5

N/M = not meaningful

This increase is primarily the result of an increase in our Nutraceutical Segment sales of approximately \$2.6 million or 20.9%. Our sales to US Customers increased in our Nutraceutical Segment by \$3.2 million and is offset, in part, by an increase in our promotional advertising expenses of \$856,000, from \$713,000 in the three months ended March 31, 2006 to \$1.6 million in the three months ended March 31, 2007, absent these advertising costs, sales to US Customers increased by \$4.0 million or 37.9%. Our international sales decreased by \$587,000 as a result of a shift in sales orders from our major customer in our contract manufacturing business from international to US shipping destinations.

Pharmaceuticals sales for the three months ended March 31, 2007 were \$1.2 million compared to \$618,500 for the comparable period. This increase is primarily due to increased sales of approximately \$609,400 in the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006 in our CRO business. These increased sales are a result of the Segment implementing its sales and marketing strategy that was adopted in the fiscal year ended June 30, 2006.

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Our Biotechnologies Segment did not significantly contribute to our net sales and gross profits in the quarters ended March 31, 2007 and 2006.

For the three months ended March 31, 2007, approximately 75% of revenues were derived from three customers as compared 94% of revenues for the three months ended March 31, 2006. The loss of any of these customers would have an adverse affect on the Company's operations. We continue to expand our customer base by expanding from selling our propriety branded nutraceutical products primarily to "club" stores to the retail sales segment and expanding our sales in the international market.

Cost of sales. Cost of sales increased to \$11.5 million for the three months ended March 31, 2007 as compared to \$8.6 million for the three months ended March 31, 2006. Cost of sales increased as a percentage of sales to 70.1% for the three months ended March 31, 2007 as compared to 66.8% for the three months ended March 31, 2006. The increase of approximately three percent (3.3%) in cost of sales is primarily a result of our increased promotional advertising costs of \$856,000 in the three months ended March 31, 2007 to \$1.6 million from 713,000 in the three months ended March 31, 2006, which are netted against sales. If these advertising costs were not netted in sales, our costs of sales as a percentage of sales, as adjusted, would have been 64.0% for the three months ended March 31, 2007 compared to 63.8% for the three months ended March 31, 2006.

Selling and Administrative Expenses. Selling and administrative expenses were \$4.4 million for the three months ended March 31, 2007, an increase of \$150,600 or 3.6% as compared with \$4.2 million for the three months ended March 31, 2006. As a percentage of sales, net, selling and administrative expenses were 26.6% for the three months ended March 31, 2007 and 32.7% for the prior comparable period. A tabular presentation of the changes in selling and administrative expenses is as follows:

	Three months ended March 31,		Dollar Increase (Decrease)
	2007	2006	2007 vs 2006
Advertising	\$ 1,224,041	\$ 747,426	\$ 476,615
Salaries and employee benefits	1,099,980	997,727	102,253
Commissions	340,141	192,428	147,713
Consulting and other professional fees	328,628	320,563	8,065
Indirect expenses	283,494	341,887	(58,393)
Marketing	212,692	21,247	191,445
Depreciation & Amortization	165,147	163,300	1,847
Insurance	124,374	111,785	12,589
Auto, Travel & Entertainment	114,879	225,728	(110,849)
Compensation expense for employee stock options	111,504	94,799	16,705
Research & Development	148	229,969	(229,821)
Other	371,136	778,800	(407,664)
Total	\$ 4,376,164	\$ 4,225,659	\$ 150,505

Advertising expense increased approximately \$476,600 or 63.8% in the three

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months ended March 31, 2007 as part of our marketing plan to increase advertising to support our proprietary branded nutraceutical products. We spent \$681,200 in media advertisements such as radio, in store commercials, magazines and newspaper ads in the three months ended March 31, 2007 compared to \$263,200 the comparable prior period, an increase of \$418,000, and increased other trade advertising expenses by \$58,600.

We also incurred additional marketing expenses of \$191,500 in the three months ended March 31, 2007 on the design and printing of new marketing materials used in the general marketing of our products as compared to the three months ended March 31, 2006.

Salaries and employee benefits increased approximately \$102,000 in the three months ended March 31, 2007 or 10.2% as a result of net new employees and general salary increases which was offset in part by the absence of bonuses of approximately \$75,000, which were paid in the three months ended March 31, 2006 in our Pharmaceuticals segment.

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Commissions increased approximately \$147,700 or 76.8%. Commissions as a percentage of sales that commissions are owed was 3.4% of such sales in the three months ended March 31, 2007 compared to 2.5% of such sales in the three months ended March 31, 2006. Our commission payout rates range from three to five percent of qualifying sales. The increase in the payout rate from the three months ended March 31, 2006 to the three months ended March 31, 2007 is a result of an increase in sales qualifying for a five percent commission payment.

Research and Development costs decreased approximately \$229,800 in the three months ended March 31, 2007 to \$148 from \$230,000 in the comparable 2006 period as a result of reaching milestones established in our research agreement with Fraunhofer, which triggered payments of \$200,000 in the 2006 period.

Other expense, net. Other expense, net was \$179,000 for the three months ended March 31, 2007 as compared to \$50,000 for the comparable period a year ago. The increase of \$129,000 was primarily attributable to an increase in interest expense of \$141,000 due to the increase in the amount of the debt outstanding, offset in part, by an increase in interest and other income of approximately \$12,000.

Federal and state income tax, net. Federal and state income tax increased from \$30,200 in the three months ended March 31, 2006 to \$228,500 in the three months ended March 31, 2007. Our effective tax rate for the three month period ended March 31, 2007 was 65%. The dollar amount increase in our federal and state income taxes are primarily a result of increased state taxes of approximately \$95,200 owed in certain states where our subsidiaries file separate tax returns and do not have operating losses from our other subsidiaries to offset their taxable income in such states. Additionally, in the three months ended March 31, 2007, we had deferred federal tax expense of approximately \$133,300 with a federal tax benefit in the three months ended March 31, 2006 of \$9,000, a federal tax expense difference of \$142,300.

Net income. The Company's net income for the three months ended March 31, 2007 was \$122,000 as compared to net income of \$9,500 for the three months ended March 31, 2006. This increase in net income of approximately \$112,500 is primarily the result of an increase in gross profit of approximately \$613,000, offset by increases in selling and administrative expenses of \$150,600 increases in other expense of approximately \$129,000, and an increase in federal and state income taxes of approximately \$198,000.

Seasonality. The Company's results of operations in its Pharmaceuticals and

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Biotechnologies segments are not significantly affected by seasonal factors. The Nutraceutical business segment tends to be seasonal. The Company has found that in its first fiscal quarter ending in September, orders for its branded proprietary nutraceutical products slow (absent the addition of new customers with a significant first time order), as buyers in their markets may have purchased sufficient inventory to carry them through the summer months. Conversely, in the Company's second fiscal quarter, ending in December, orders for its products increase as the demand for the Company's branded nutraceutical products seems to increase in late December to early January as consumers become health conscious as they enter the new year.

The Company believes that there are other non-seasonal factors that also may also influence the variability of quarterly results including, but not limited to, general economic and industry conditions that affect consumer spending, changing consumer demands and current news on nutritional supplements. In addition, our recent growth has caused additional variability in our quarterly results. Accordingly, a comparison of the Company's results of operations from consecutive periods is not necessarily meaningful, and the Company's results of operations for any period are not necessarily indicative of future periods.

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are cash generated from operations. The Company also has a \$15.0 million revolving line of credit available through October 31, 2007 with a one-year renewal option available at the lender's option and a \$10.0 million five-year term note entered into in April 2007. The Company's principal uses of cash have been to finance working capital, acquisitions, capital expenditures and Preferred Series B Stock dividend payments and the redemption of its Preferred Series B Stock. The Company anticipates these uses will continue to be its principal uses of cash in the future, except that subsequent to October 2006, the Company's use for Preferred Series B Stock dividend payments will not be a significant use as it redeemed 650 shares in October 2006 and the cash dividends on the remaining 25 shares will be less than \$1,000 for the remainder of fiscal 2007 and none thereafter as the shares were redeemed for \$250,000 in the quarter ending June 30, 2007.

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The following table sets forth, for the periods indicated, the Company's net cash flows used in operating, investing and financing activities, its period end cash and cash equivalents and other operating measures:

	For the Nine months ended March 31,	
	2007	2006
Net cash (used in) provided by operating activities	\$ (3,932,342)	\$ 2,151,086
Net cash used in investing activities	\$ (1,214,946)	\$ (604,536)
Net cash provided by (used in) financing activities	\$ 707,961	\$ (236,322)
Cash and cash equivalents at end of period	\$ 1,307,509	\$ 3,737,781

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Days sales in inventory	49	74
	=====	=====
Inventory turnover	7.4	4.9
	=====	=====

At March 31, 2007, the Company's working capital was \$11.1 million, a decrease of \$4.0 million over working capital at June 30, 2006 of \$15.1 million. Cash and cash equivalents were \$1.3 million at March 31, 2007, a decrease of \$4.4 million from June 30, 2006. The Company used \$3.9 million and provided \$2.2 million of net cash from operations for the nine months ended March 31, 2007 and 2006, respectively. The primary reason for the increase in cash used in operating activities of \$6.1 million is the increase in cash used in inventories. Our inventory levels increased by \$5.7 million in the nine months ended March 31, 2007 based on our increased sales orders for future shipments, including additional raw materials for new products. The Company believes that anticipated sales for next year, current cash balances, its revolving credit facility and its five-year term note should meet its cash needs for operations for the remainder of fiscal 2007 and into fiscal 2008.

The Company utilized \$1.2 million and \$604,500 of cash in investing activities for the nine months ended March 31, 2007 and 2006, respectively. The Company provided for net cash of \$708,000 and utilized \$236,300 of cash from financing activities for the nine months ended March 31, 2007 and 2006, respectively. The net cash provided by financing activities of 708,000 was primarily the result of net borrowings of \$13.5 million under its revolving credit facility offset, in part by the paydown of notes payable (\$4.7 million), early redemption of 650 shares of our Series B Preferred stock (\$6.5 million) and a required deposit of \$2.0 million, in an interest bearing certificate of deposit, with our lender in connection with our \$15.0 million revolving credit facility.

The Company's total annual commitments at March 31, 2007 for long term non-cancelable leases of approximately \$1.2 million consists of obligations under operating leases for facilities and lease agreements for the rental of warehouse equipment, office equipment and automobiles.

The Company believes its sources of cash will be sufficient to fund its operations and meet its cash requirements to satisfy its working capital needs, capital expenditure needs, outstanding commitments, and other liquidity requirements associated with its existing operations over the next twelve months. The Company's ability to fund these requirements will depend on its future operations, performance and cash flow and is subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control. In addition, as part of the Company's strategy, it may pursue acquisitions and investments that are complementary to its business. Any material future acquisitions or investments will likely require additional capital and therefore, the Company cannot predict or assure that additional funds from existing sources will be sufficient for such future events.

Capital Expenditures

The Company's capital expenditures for the nine months ended March 31, 2007 and 2006 were \$656,300 and \$167,600, respectively and was primarily attributable to the purchase of machines and equipment in our Nutraceutical segment.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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Recent Accounting Pronouncements - refer to footnote 1 of the condensed consolidated financial statements for the nine months ended March 31, 2007 included in Part I - Item 1.

Impact of Inflation

The Company does not believe that inflation has significantly affected its results of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the Company is party to financial instruments that are subject to market risks arising from changes in interest rates and foreign currency exchange rates, primarily with respect to the Canadian Dollar in its customer receivables. The Company's use of derivative instruments is very limited and it does not enter into derivative instruments for trading purposes. We performed a sensitivity analysis to determine the impact of fluctuations in interest rates relating to our outstanding variable debt. If interest rates varied by plus or minus one percent our income before taxes would be higher or lower in the amount of \$135,000 per annum.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The Company has not completed its Sarbanes Oxley section 404 process, or related assessment in the process of evaluation and testing and is not required to do so until our fiscal year ending June 30, 2008. The Company may identify deficiencies that may require remediation in the process of its evaluation and testing.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

NatEx Georgia LLC and Vasili Patarkalishvili v. Robert B. Kay, E. Gerald Kay, Trade Investment Services, LLC, Paxis Pharmaceuticals, Inc., Dean P. Stull and Integrated BioPharma, Inc., pending in the Supreme Court for the State of New York, New York County. Plaintiffs NatEx Georgia LLC and Vasili Patarkalishvili commenced this action on July 19, 2004, alleging claims for breach of contract, fraud and breach of the implied duty of good faith and fair dealing arising out of an alleged failure by Paxis to provide information necessary for NatEx to perform under the parties' agreements by which NatEx had agreed to supply

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Paclitaxel extract. The complaint seeks damages of more than \$5.0 million. By order dated January 6, 2006, the Court granted in part Defendants' motion to dismiss. The Court dismissed all of the claims against all defendants, except for the breach of contract claim against Paxis. Plaintiffs filed a notice of appeal of that decision. On April 17, 2007, the Supreme Court, Appellate Division, First Department dismissed Plaintiffs' appeal for failure to perfect. Certain of the Defendants, including the Company, have filed counter-claims against Plaintiffs for breach of a July 2003 agreement with NatEx and to collect on an \$1.3 million note, though the Company is doubtful of collection on that note. Paxis plans to defend vigorously the remaining claim and prosecute its claims.

Item 1A. RISK FACTORS

The risks described in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended June 30, 2006, could materially and adversely affect our business, financial condition and results of operations. The risk factors discussed in that Form 10-K do not identify all risks that we face because our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit
Number

31.1 Certification of pursuant to Section 302 of Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.

31.2 Certification of pursuant to Section 302 of Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.

32.1 Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.

32.2 Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

Date: May 9, 2007

By: /s/ E. Gerald Kay

E. Gerald Kay
Chief Executive Officer

Date: May 9, 2007

By: /s/ Dina L. Masi

Dina L. Masi
Senior Vice President & Chief Financial Officer