

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 September 30, 2014

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 001-31668

INTEGRATED BIOPHARMA, INC.

(Exact name of registrant, as specified 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

(Address of principal executive offices)

07205

(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 mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

Applicable only to Corporate Issuers:

The number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

Class
Common Stock, \$0.002 par value

Outstanding at November 7, 2014
21,105,174 Shares

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

**FORM 10-Q QUARTERLY REPORT
For the Three Months Ended September 30, 2014
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Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q may constitute “forward-looking” statements as defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Act of 1934, as amended (the “Exchange Act”), the Private Securities Litigation Reform Act of 1995 (the “PSLRA”) or in releases made by the Securities and Exchange Commission (“SEC”), all as may be amended from time to time. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Integrated BioPharma, Inc. and its subsidiaries (the “Company”) or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors including, among others, changes in general economic and business conditions; loss of market share through competition; introduction of competing products by other companies; the timing of regulatory approval and the introduction of new products by the Company; changes in industry capacity; pressure on prices from competition or from purchasers of the Company’s products; regulatory changes in the pharmaceutical manufacturing industry and nutraceutical industry; regulatory obstacles to the introduction of new technologies or products that are important to the Company; availability of qualified personnel; the loss of any significant customers or suppliers; and other factors both referenced and not referenced in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2014 (“Form 10-K”), as filed with the SEC. 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, 2014 and in 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 the forward-looking statements. The Company’s future financial condition and results of operations, as well as any 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.

ITEM 1. FINANCIAL STATEMENTS

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except for share and per share amounts)
(Unaudited)

	Three months ended	
	September 30,	
	<u>2014</u>	<u>2013</u>
Sales, net	\$ 8,582	\$ 9,191
Cost of sales	<u>7,281</u>	<u>7,594</u>
Gross profit	1,301	1,597
Selling and administrative expenses	<u>852</u>	<u>937</u>
Operating income	449	660
Other income (expense), net:		
Interest expense	(240)	(248)
Change in fair value of derivative liabilities	214	(73)
Other income, net	<u>9</u>	<u>2</u>
Other expense, net	<u>(17)</u>	<u>(319)</u>
Income before income taxes	432	341
Income tax expense, net	<u>29</u>	<u>43</u>
Net income	<u>403</u>	<u>298</u>
Interest expense on Convertible debt - CD Financial, LLC	82	82
Accretion of Convertible debt - CD Financial, LLC	28	27
Change in fair value of derivative liabilities	<u>(214)</u>	<u>73</u>
Diluted net income	<u>\$ 299</u>	<u>\$ 480</u>
Basic net income per common share	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Diluted net income per common share	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding - basic	21,105,174	21,080,174
Add: Stock options	199,775	89,857
Shares issuable upon conversion of		
Convertible Debt - CD Financial, LLC	<u>8,230,769</u>	<u>8,230,769</u>
Weighted average common shares outstanding - diluted	<u>29,535,718</u>	<u>29,400,800</u>

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for share and per share amounts)
(Unaudited)

	<u>September 30,</u> 2014	<u>June 30,</u> 2014
Assets		
Current Assets:		
Cash	\$ 294	\$ 451
Accounts receivable, net	2,297	2,179
Inventories	6,974	5,698
Investment in iBio, Inc.	532	532
Other current assets	389	306
Total current assets	<u>10,486</u>	<u>9,166</u>
Intangible assets, net	846	880
Property and equipment, net	1,531	1,239
Security deposits and other assets	281	298
Total Assets	<u><u>\$ 13,144</u></u>	<u><u>\$ 11,583</u></u>
Liabilities and Stockholders' Deficiency:		
Current Liabilities:		
Advances under revolving credit facility	\$ 4,581	\$ 4,121
Accounts payable (includes \$133 and \$184 due to related party)	6,399	5,635
Accrued expenses and other current liabilities	1,199	1,309
Current portion of long term debt	754	588
Total current liabilities	<u>12,933</u>	<u>11,653</u>
Long term debt	4,423	4,359
Subordinated convertible note, net - CD Financial, LLC	5,037	5,009
Derivative liabilities	503	717
Total liabilities	<u>22,896</u>	<u>21,738</u>
Commitments and Contingencies		
Stockholders' Deficiency:		
Common Stock, \$0.002 par value; 50,000,000 shares authorized; 21,140,074 and 21,105,174 shares issued and outstanding, respectively	42	42
Additional paid-in capital	44,572	44,572
Accumulated deficit	(54,267)	(54,670)
Less: Treasury stock, at cost, 34,900 shares	(99)	(99)
Total Stockholders' Deficiency	<u>(9,752)</u>	<u>(10,155)</u>
Total Liabilities and Stockholders' Deficiency	<u><u>\$ 13,144</u></u>	<u><u>\$ 11,583</u></u>

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share and per share amounts)
(Unaudited)

	Three months ended September 30,	
	2014	2013
Cash flows provided by operating activities:		
Net income	\$ 403	\$ 298
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	95	103
Accretion of financing instruments and other non cash interest	60	59
Change in fair value of derivative liabilities	(214)	73
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(119)	441
Inventories	(1,276)	(94)
Other current assets	(83)	(2)
Security deposits and other assets	(15)	(8)
(Decrease) increase in:		
Accounts payable	763	(258)
Accrued expenses and other liabilities	(109)	157
Net cash (used in) provided by operating activities	(495)	769
Cash flows from investing activities:		
Purchase of property and equipment	(168)	(2)
Net cash used in investing activities	(168)	(2)
Cash flows from financing activities:		
Advances under revolving credit facility	8,792	8,890
Proceeds from Line of Credit Note	205	-
Repayments of advances under revolving credit facility	(8,332)	(9,089)
Repayments under term note payables	(135)	(135)
Repayments under capitalized lease obligations	(24)	(8)
Net cash provided by (used in) financing activities	506	(342)
Net (decrease) increase in cash	(157)	425
Cash at beginning of period	451	55
Cash at end of period	\$ 294	\$ 480
 Supplemental disclosures of cash flow information:		
Cash paid during the periods for:		
Interest	\$ 174	\$ 183
Income taxes	\$ -	\$ -
 Supplemental disclosures of non-cash transactions:		
Accretion on embedded derivative feature of convertible note payable	\$ 28	\$ 27
Amortization of prepaid financing costs	\$ 32	\$ 32
Financing on capitalized lease obligations	\$ 185	\$ -

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(Unaudited)

Note 1. Principles of Consolidation and Basis of Presentation

Basis of Presentation of Interim Financial Statements

The accompanying condensed consolidated financial statements for the interim periods are unaudited and include the accounts of Integrated BioPharma, Inc., a Delaware corporation (together with its subsidiaries, the “Company”). The interim condensed consolidated 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 condensed consolidated 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, 2014 (“Form 10-K”), as filed with the SEC. The June 30, 2014 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 three months ended September 30, 2014 are not necessarily indicative of the results for the full fiscal year ending June 30, 2015 or for any other period.

Nature of Operations

The Company is engaged primarily in manufacturing, distributing, marketing and sales of vitamins, nutritional supplements and herbal products. The Company’s customers are located primarily in the United States, Luxembourg and Canada. The Company was previously known as Integrated Health Technologies, Inc. and, prior to that, as Chem International, Inc. The Company was reincorporated in its current form in Delaware in 1995. The Company continues to do business as Chem International, Inc. with certain of its customers and certain vendors.

The Company’s business segments include: (a) Contract Manufacturing operated by InB:Manhattan Drug Company, Inc. (“MDC”), which manufactures vitamins and nutritional supplements for sale to distributors, multilevel marketers and specialized health-care providers; (b) Branded Proprietary Products operated by AgroLabs, Inc. (“AgroLabs”), which distributes healthful nutritional products for sale through major mass market, grocery, drug and vitamin retailers, under the following brands: Naturally Noni, Coconut Water, Aloe Pure, Peaceful Sleep, Green Envy, ACAI Extra, ACAI Cleanse, Wheatgrass and other products which are being introduced into the market (these are referred to as our branded proprietary nutraceutical business and/or products); and (c) Other Nutraceutical Businesses which includes the operations of (i) The Vitamin Factory (the “Vitamin Factory”), which sells private label MDC products, as well as our AgroLabs products, through the Internet, (ii) IHT Health Products, Inc. (“IHT”) a distributor of fine natural botanicals, including multi minerals produced under a license agreement and (iii) Chem International, Inc., a distributor of certain raw materials for DSM Nutritional Products LLC.

Significant Accounting Policies

There have been no material changes during fiscal year 2015 in the Company’s significant accounting policies to those previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Investment in iBio, Inc. The Company accounts for its investment in iBio, Inc. (“iBio”) common stock on the cost basis as it initially retained approximately 6% of its interest in iBio (1,266,706 common shares) (the “iBio Stock”) at the time of the spin-off of this subsidiary in August 2008. The Company reviews its investment in iBio for impairment and records a loss when there is deemed to be an impairment of the investment. To date, there

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
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were cumulative impairment charges of \$298. The market value of the iBio Stock as of September 30, 2014 was approximately \$0.7 million. Pursuant to the Company's Loan Agreement with PNC Bank, National Association ("PNC"), the Company is required to sell the iBio Stock when the trading price of the iBio Stock is less than \$0.88 per share for a period of fifteen (15) consecutive trading days on the applicable exchange and utilize all proceeds from such sale to prepay the outstanding principal of the term loan outstanding under the Loan Agreement at such time. In the fiscal years ended June 30, 2014 and 2013, the trading price of the iBio Stock was less than \$0.88 for a period of fifteen (15) consecutive trading days and has continued to have a trading price less than \$0.88 through October 10, 2014. Since then and through November 7, 2014, the trading price of the iBio Stock has traded above \$0.88. (See Note 5. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt). As of November 7, 2014, the Company has not sold any shares of the iBio Stock and PNC has not required the Company to sell any of the iBio Stock but continues to reserve the right to do so at any time in the future.

Earnings Per Share. Basic earnings per common share amounts 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 debt, subject to anti-dilution limitations using the treasury stock method.

The following options, warrants and potentially dilutive shares for convertible notes payable (see Note 5. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt) were not included in the computation of weighted average diluted common shares outstanding as the effect of doing so would be anti-dilutive for the three months ended September 30, 2014 and 2013:

	Three Months Ended	
	September 30,	
	<u>2014</u>	<u>2013</u>
Anti-dilutive stock options	401,200	2,173,588
Anti-dilutive warrants	-	500,000
Total anti-dilutive shares	<u>401,200</u>	<u>2,673,588</u>

Note 2. Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method and consist of the following:

	September 30, <u>2014</u>	June 30, <u>2014</u>
Raw materials	\$ 3,573	\$ 2,851
Work-in-process	1,165	1,216
Finished goods	2,236	1,631
Total	<u>\$ 6,974</u>	<u>\$ 5,698</u>

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 3. Intangible Assets, net

Intangible assets consist of trade names, license fees from the Branded Proprietary Products Segment, and unpatented technology from the Other Nutraceutical Businesses Segment. The carrying amount of intangible assets, net is as follows as of:

	September 30, 2014			June 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	\$ 1,525	\$ 834	\$ 691	\$ 1,525	\$ 815	\$ 710
Unpatented technology	547	510	37	547	500	47
License agreement	347	229	118	347	224	123
Total	\$ 2,419	\$ 1,573	\$ 846	\$ 2,419	\$ 1,539	\$ 880

Amortization expense recorded on intangible assets for each of the three months ended September 30, 2014 and 2013 was \$34. Amortization expense is recorded on the straight-line basis over periods ranging from 13 years to 20 years based on contractual or estimated lives and is included in selling and administrative expenses. Tests for impairment or recoverability are performed at least annually and require significant management judgment and the use of estimates which the Company believes are reasonable and appropriate at the time of the impairment test. Future unanticipated events affecting cash flows and changes in market conditions could affect such estimates and result in the need for an impairment charge. The Company also re-evaluates the periods of amortization to determine whether circumstances warrant revised estimates of current useful lives. No impairment losses were identified or recorded in the three months ended September 30, 2014 and 2013 on the Company's intangible assets.

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

Year ending June 30,	Amortization Expense
2015, remaining	\$ 103
2016	104
2017	97
2018	97
2019	97
2020	93
Thereafter	255
Total	\$ 846

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4. Property and Equipment, net

Property and equipment, net consists of the following:

	September 30, 2014	June 30, 2014
Land and building	\$ 1,250	\$ 1,250
Leasehold improvements	1,164	1,135
Machinery and equipment	5,420	5,096
Transportation equipment	63	63
	<u>7,897</u>	<u>7,544</u>
Less: Accumulated depreciation and amortization	(6,366)	(6,305)
Total	<u>\$ 1,531</u>	<u>\$ 1,239</u>

Depreciation and amortization expense recorded on property and equipment for the three months ended September 30, 2014 and 2013 was \$61 and \$69, respectively.

Note 5. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt

As of September 30, 2014 and June 30, 2014, the Company had the following debt outstanding:

	Principal Amount		Interest Rate	Maturity Date
	As of September 30, 2014	As of June 30, 2014		
Revolving advances under Senior Credit Facility with PNC Bank, National Association	\$ 4,581	\$ 4,121	3.25%	6/27/2017
Installment Note with PNC Bank	2,280	2,413	3.75%	6/27/2017
Line of Credit Note with PNC Equipment Finance	205	-	3.40%	3/31/2018
Promissory Note with CD Financial, LLC	1,714	1,714	6.00%	7/7/2017
Promissory Note with Vitamin Realty, LLC	686	686	4.00%	7/7/2017
			0.00% -	2/28/2015 -
Capitalized lease obligations	243	83	7.10%	11/20/2016
Promissory Note with E. Gerald Kay	27	27	4.00%	7/7/2017
Promissory Note with Acura Financial Services	22	24	1.90%	4/15/2017
Total outstanding debt	<u>9,758</u>	<u>9,068</u>		
Less: Revolving Advances	(4,581)	(4,121)		
Current portion of long term debt	(754)	(588)		
Long term debt	<u>\$ 4,423</u>	<u>\$ 4,359</u>		
Convertible Note payable - CD Financial, LLC	\$ 5,350	\$ 5,350	6.00%	7/7/2017
Discount for embedded derivative	(313)	(341)		
Convertible Note payable, net - CD Financial, LLC	<u>\$ 5,037</u>	<u>\$ 5,009</u>		

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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SENIOR CREDIT FACILITY

On June 27, 2012, the Company, MDC, AgroLabs, IHT, IHT Properties Corp. (“IHT Properties”) and Vitamin Factory (collectively, the “Borrowers”) entered into a Revolving Credit, Term Loan and Security Agreement (the “Loan Agreement”) with PNC Bank, National Association as agent and lender (“PNC”) and the other lenders party thereto.

The Loan Agreement provides for a total of \$11,727 in senior secured financing (the “Senior Credit Facility”) as follows: (i) discretionary advances (“Revolving Advances”) based on eligible accounts receivable and eligible inventory in the maximum amount of \$8,000 (the “Revolving Credit Facility”) and (ii) a term loan in the amount of \$3,727 (the “Term Loan”). The Senior Credit Facility is secured by all assets of the Borrowers, including, without limitation, machinery and equipment, real estate owned by IHT Properties, and common stock of iBio owned by the Company. Revolving Advances bear interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 2.75% (3.25% as of September 30, 2014 and June 30, 2014). The Term Loan bears interest at PNC’s Base Rate or the Eurodollar Rate, at Borrowers’ option, plus 3.25% (3.75% as of September 30, 2014 and June 30, 2014). Upon and after the occurrence of any event of default under the Loan Agreement, and during the continuation thereof, interest shall be payable at the interest rate then applicable plus 2%. The Senior Credit Facility matures on June 27, 2017 (the “Senior Maturity Date”).

The principal balance of the Revolving Advances is payable on the Senior Maturity Date, subject to acceleration, based upon a material adverse event clause, as defined, subjective accelerations for borrowing base reserves, as defined or upon the occurrence of any event of default under the Loan Agreement or earlier termination of the Loan Agreement pursuant to the terms thereof. The Term Loan shall be repaid in sixty (60) consecutive monthly installments of principal, the first fifty nine (59) of which shall be in the amount of \$44, commencing on the first business day of August, 2012, and continuing on the first business day of each month thereafter, with a final payment of any unpaid balance of principal and interest payable on the first business day of July, 2017. The foregoing is subject to customary mandatory prepayment provisions and acceleration upon the occurrence of any event of default under the Loan Agreement or earlier termination of the Loan Agreement pursuant to the terms thereof.

The Revolving Advances are subject to the terms and conditions set forth in the Loan Agreement and are made in aggregate amounts at any time equal to the lesser of (x) \$8.0 million or (y) an amount equal to the sum of: (i) up to 85%, subject to the provisions in the Loan Agreement, of eligible accounts receivables (“Receivables Advance Rate”), plus (ii) up to the lesser of (A) 65%, subject to the provisions in the Loan Agreement, of the value of the eligible inventory (“Inventory Advance Rate” and together with the Receivables Advance Rate, collectively, the “Advance Rates”), (B) 85% of the appraised net orderly liquidation value of eligible inventory (as evidenced by the most recent inventory appraisal reasonably satisfactory to PNC in its sole discretion exercised in good faith) and (C) the inventory sublimit in the aggregate at any one time (“Inventory Advance Rate” and together with the Receivables Advance Rate, collectively, the “Advance Rates”), minus (iii) the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit, minus (iv) such reserves as Agent may reasonably deem proper and necessary from time to time.

The Loan Agreement contains customary mandatory prepayment provisions, including, without limitation, (i) the requirement that if the trading price per share of the iBio Stock falls below a certain amount, the Company must sell the iBio Stock and use the proceeds to repay the Term Loan and (ii) the requirement to prepay the outstanding amount of all loans in an amount equal to fifty percent (50%) of Excess Cash Flow for each fiscal year commencing with the fiscal year ending June 30, 2014, payable upon delivery of the financial statements to PNC referred to in and required by the Loan Agreement for such fiscal year but in any event not later than one hundred twenty (120) days after the end of each such fiscal year, which prepayment amount shall be applied ratably to the outstanding principal installments of the Term Loan in the inverse order of the

INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(Unaudited)

maturities thereof until the aggregate amount of payments made with regard to the Term Loan pursuant to the Loan Agreement equals \$1.0 million. The Loan Agreement also contains customary representations and warranties, covenants and events of default, including, without limitation, (i) a fixed charge coverage ratio maintenance requirement and (ii) an event of default tied to any change of control as defined in the Loan Agreement. As of September 30, 2014, the Company is in compliance with the fixed charge coverage ratio maintenance requirement.

During certain periods in the fiscal year ended June 30, 2013 and continuing through the quarter ended September 30, 2014, the trading price of the iBio Stock was less than \$0.88 for a period of fifteen (15) consecutive trading days. However, PNC temporarily waived the requirement to sell the iBio Stock due to certain trading rules and restrictions under Rule 144 under the Securities Act of 1933, as amended. As of November 7, 2014, PNC has not required the Company to sell any of the iBio Stock but reserves the right to do so at any time in the future.

In October, 2013, when the Company delivered its annual financial statements for the fiscal year ended June 30, 2013 to PNC, as required under the Loan Agreement, the Company was required to make a prepayment in respect of loans outstanding under the Loan Agreement of approximately \$293, representing 50% of Excess Cash Flows for the fiscal year ended June 30, 2013. This payment, along with the scheduled monthly principal payments of \$44 made by the Company in respect of the Term Loan through November 1, 2013 provided for principal payments of \$1.0 million in the aggregate.

In connection with the Senior Credit Facility, each of E. Gerald Kay, an officer, director and major stockholder of the Company, and Carl DeSantis, a director and major stockholder of the Company and a member of CD Financial, LLC (“CD Financial”) (collectively, the “Guarantors”), entered into Continuing Limited Guarantees (collectively, the “Individual Guarantees”) with PNC whereby each Guarantor irrevocably and unconditionally guarantees the full, prompt and unconditional payment, when due, whether by acceleration or otherwise, of any and all obligations of the Borrowers under the Loan Agreement and the other loan documents. The liability of each Guarantor under his respective Individual Guarantee is limited to a maximum of \$1.0 million. The Individual Guarantees automatically terminate upon the satisfaction of certain conditions set forth in the Loan Agreement. These conditions included the Company repaying an aggregate amount of \$1.0 million of principal on the Term Loan and the Company meeting a minimum EBITDA, as defined in the Loan Agreement, of \$1.5 million for the fiscal year ended June 30, 2013. The Company met these requirements on November 1, 2013 and Mr. DeSantis and Mr. Kay were released as guarantors under the Individual Guarantees.

Also, in connection with the Senior Credit Facility, PNC and CD Financial entered into the Intercreditor and Subordination Agreement (the “Intercreditor Agreement”), which was acknowledged by the Borrowers, pursuant to which, among other things, (a) the lien of CD Financial on assets of the Borrowers is subordinated to the lien of PNC on such assets during the effectiveness of the Senior Credit Facility, and (b) priorities for payment of the debt for the Company and its subsidiaries (as described in this Note 5) are established.

In addition, in connection with the Senior Credit Facility, the following loan documents were executed: (i) a Stock Pledge Agreement with PNC, pursuant to which the Company pledged to PNC the iBio Stock; (ii) a Mortgage and Security Agreement with PNC with IHT Properties; and (iii) an Environmental Indemnity Agreement with PNC.

CD FINANCIAL, LLC TROUBLED DEBT RESTRUCTURING

On June 27, 2012, the Company also entered into an Amended and Restated Securities Purchase Agreement (the “CD SPA”) with CD Financial, which amended and restated the Securities Purchase Agreement, dated as of February 21, 2008, between the Company and CD Financial, pursuant to which the Company issued to CD

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Financial a 9.5% Convertible Senior Secured Note in the original principal amount of \$4,500 (the “Original CD Note”). Pursuant to the CD SPA, the Company issued to CD Financial (i) the Amended and Restated Convertible Promissory Note in the principal amount of \$5,350 (the “CD Convertible Note”) and (ii) the Promissory Note in the principal amount of \$1,714 (the “Liquidity Note”, and collectively with the CD Convertible Note, the “CD Notes”). The CD Notes mature on July 7, 2017.

The proceeds of the CD Notes were used to refinance (a) the Original CD Note, (b) a \$300,000 note issued by MDC to CD Financial which was assigned by MDC to the Company, (c) past due interest in the aggregate amount of \$333 and (d) other expenses owed to CD Financial by the Company in the aggregate amount of approximately \$217.

The CD Notes are secured by all assets of the Borrowers, including, without limitation, machinery and equipment, real estate owned by IHT Properties, and iBio Stock owned by the Company. The CD Notes bear interest at an annual rate of 6% and have a default rate of 10%.

The CD Convertible Note is convertible at the option of CD Financial into common stock of the Company at a conversion price of \$0.65 per share, subject to customary adjustments including conversion price protection provisions.

Pursuant to the terms of the Loan Agreement and the Intercreditor Agreement, during the effectiveness of the Senior Credit Facility, (i) the principal of the CD Convertible Note may not be repaid, (ii) the principal of the Liquidity Note may only be repaid if certain conditions under the Loan Agreement are satisfied, and (iii) interest in respect of the CD Notes may only be paid if certain conditions under the Intercreditor Agreement are satisfied.

The CD SPA contains customary representations and warranties, covenants and events of default, including, without limitation, an event of default tied to any change of control as defined in the CD SPA.

In connection with the CD SPA, the Borrowers entered into an Amended and Restated Security Agreement and Amended and Restated Subsidiary Guaranty.

As of September 30, 2014 and June 30, 2014, the related embedded derivative liability with respect to conversion price protection provisions on the CD Convertible Note has an estimated fair value of \$503 and \$717, respectively.

The Company used the following assumptions to calculate the fair value of the derivative liability using the Black-Scholes option pricing model:

	September 30, 2014	June 30, 2014	June 27, 2012
Risk Free Interest Rate	1.07%	0.88%	0.72%
Volatility	79.40%	88.50%	144.10%
Term	2.75 years	3 years	5 years
Dividend Rate	0.00%	0.00%	0.00%
Closing Price of Common Stock	\$ 0.24	\$ 0.25	\$ 0.09

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OTHER LONG TERM DEBT

Related Party Debt. On June 27, 2012, MDC and the Company entered into separate promissory notes with (i) Vitamin Realty Associates, LLC (“Vitamin Realty”), which is 100% owned by E. Gerald Kay, the Company’s Chairman of the Board, President and major shareholder and certain of his family members, who are also executive officers and directors of the Company, and (ii) E. Gerald Kay, in the principal amounts of approximately \$686 (the “Vitamin Note”) and \$27 (the “Kay Note”), respectively (collectively the “Related Party Notes”). The principal amount of the Vitamin Note represents the aggregate amount of unpaid, past due rent owing by MDC under the Lease Agreement, dated as of January 10, 1997, between MDC, as lessor, and Vitamin Realty, as landlord, pertaining to the real property located at 225 Long Avenue, Hillside, New Jersey. (See Note 7. Commitments and Contingencies (a) Leases – Related Party Leases). The Kay Note represents amounts owed to Mr. Kay for unreimbursed business expenses incurred by Mr. Kay in the fiscal year ended June 30, 2008. The Related Party Notes mature on July 7, 2017 and accrue interest at an annual rate of 4% per annum. Interest in respect of the Related Party Notes is payable on the first business day of each calendar month. Pursuant to the terms of the Loan Agreement, during the effectiveness of the Senior Credit Facility, the Related Party Notes may only be repaid or prepaid if certain conditions set forth in the Loan Agreement are satisfied.

Capitalized Lease Obligations. On August 22, 2014, the Company entered into a capitalized lease obligation with Marlin Leasing in the amount of \$47, which lease is secured by a certain machinery and equipment and matures on August 28, 2016. The lease payment amount of approximately \$2 is payable monthly and has an imputed interest rate of 5.6%.

On August 28, 2014, the Company entered into a capitalized lease obligation with Quantum Analytics in the amount of \$138, which lease is secured by a certain machinery and equipment and matures on February 27, 2016. The lease payment amount of approximately \$8 is payable monthly and has an imputed interest rate of 0%.

Equipment Financing Note. On September 22, 2014, MDC entered into a Convertible Line of Credit Note (the “LC Note”) in the amount of \$350 with PNC Equipment Finance, LLC (“PNCEF”). The LC Note is convertible into a term note upon completion of the advances under the LC Note. During the period from September 22, 2014 to and including the Conversion Date (defined below), the Company may borrow up to the full value of the LC Note (\$350). The “Conversion Date” is the earliest to occur of (i) July 31, 2015 or (ii) the date when the Company notifies PNCEF that no more advances will be requested or (iii) the date when PNCEF has made advances in an aggregate amount of \$350. As of September 30, 2014, the Company has requested and received advances under the LC Note in the amount of \$205. Prior to the Conversion Date, amounts outstanding under the LC Note bear interest at a rate per annum (“Floating Rate”) which is at all times equal to the sum of LIBOR Rate plus 325 basis points (3.25%). As of September 30, 2014, the Floating Rate was 3.4%. On October 15, 2014, PNCEF advanced an additional \$68 under the LC Note. The Company is expecting to complete the advances no later than the fiscal quarter ending March 31, 2015 and convert the LC Note to a three year term note, at which time the Company will have the option to elect a fixed rate of interest as offered by PNCEF on the Conversion Date.

In addition, in connection with the LC Note, the following loan documents were executed: (i) a Security Agreement with PNCEF and MDC; (ii) a Guaranty and Security Agreement with PNCEF and the Company; and (iii) a Cross Collateralization Agreement with PNC, PNCEF and MDC.

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Note 6. Significant Risks and Uncertainties

(a) Major Customers. For the three months ended September 30, 2014 and 2013, approximately 81% and 79%, respectively of consolidated net sales, were derived from two customers. These two customers are in the Company's Contract Manufacturing Segment and represent approximately 63% and 26% and 72% and 15% of this Segment's net sales in the three months ended September 30, 2014 and 2013, respectively. A third customer in the Branded Nutraceutical Segment, while not a significant customer of the Company's consolidated net sales, represented approximately 78% and 39% of net sales in the three months ended September 30, 2014 and 2013, respectively, of the Branded Nutraceutical Segment. Accounts receivable from these customers represented approximately 81% and 74% of total net accounts receivable as of September 30 and June 30, 2014, respectively. The loss of any of these customers could have an adverse affect on the Company's operations. Major customers are those customers who account for more than 10% of net sales.

(b) Other Business Risks. Approximately 63% of the Company's employees are covered by a union contract and are employed in its New Jersey facilities. The contract was renewed in May 2012 and expires in August 2015.

Note 7. Commitments and Contingencies

(a) Leases

Related Party Leases. Warehouse and office facilities are leased from Vitamin Realty, which is 100% owned by the Company's chairman, president and major stockholder and certain of his family members, who are also executive officers and directors of the Company. On January 5, 2012, MDC, a wholly-owned subsidiary of the Company, entered into a second amendment of lease (the "Second Lease Amendment") with Vitamin Realty for its office and warehouse space in New Jersey increasing its rentable square footage from an aggregate of 74,898 square feet to 76,161 square feet and extending the expiration date to January 31, 2026. This Second Lease Amendment provides for minimum annual rental payments of \$533, plus increases in real estate taxes and building operating expenses. On May 19, 2014, AgroLabs entered into an Amendment to the lease agreement entered into on January 5, 2012, with Vitamin Realty for an additional 2,700 square feet of warehouse space in New Jersey, the term of which was to expire on January 31, 2019 to extend the expiration date to January 1, 2024. This additional lease provides for minimum lease payments of \$27 with annual increases plus the proportionate share of operating expenses.

Rent expense for the three months ended September 30, 2014 and 2013 on these leases were \$210 and \$206 respectively, and are included in both cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. As of September 30, 2014 and June 30, 2014, the Company had an outstanding obligation to Vitamin Realty of \$858 and \$902, respectively, included in accounts payable, accrued expenses and other liabilities and long term debt in the accompanying Condensed Consolidated Balance Sheet.

Other Lease Commitments. The Company has entered into certain non-cancelable operating lease agreements expiring up through January 31, 2026, related to office and warehouse space, equipment and vehicles (inclusive of the related party lease with Vitamin Realty).

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The minimum rental commitments for long-term non-cancelable leases are as follows:

Year ending June 30,	Operating Lease Commitment	Related Party Lease Commitment	Total
2015, remaining	\$ 35	\$ 422	\$ 457
2016	36	563	599
2017	15	563	578
2018	8	563	571
2019	-	563	563
2020	-	563	563
Thereafter	-	3,080	3,080
Total	\$ 94	\$ 6,317	\$ 6,411

Total rent expense, including real estate taxes and maintenance charges, was approximately \$252 and \$247 for the three months ended September 30, 2014 and 2013, respectively. Rent expense is included in cost of sales and selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations.

(b) Legal Proceedings.

The Company is subject, from time to time, to claims by third parties under various legal theories. The defense of such claims, or any adverse outcome relating to any such claims, could have a material adverse effect on the Company's liquidity, financial condition and cash flows.

(c) Other Claims.

On May 15, 2012, Cedarburg Pharmaceuticals, Inc. ("Cedarburg") sent the Company a letter (the "Demand Letter") setting forth a demand for indemnification under the Stock Purchase Agreement, dated March 17, 2009 (the "Cedarburg SPA"), by and among Cedarburg, InB: Hauser Pharmaceutical Services, Inc., InB: Paxis Pharmaceuticals, Inc. and the Company. In the Demand Letter, Cedarburg demanded payment by the Company of \$0.6 million in respect of the Company's indemnification obligations under the Cedarburg SPA. In addition, in the Demand Letter, Cedarburg informed the Company that there are also environmental issues pending which may lead to additional costs to Cedarburg which will likely be in excess of \$0.3 million.

On May 30, 2012, the Company sent a letter responding to the Demand Letter and setting forth the Company's position that it has no obligation to indemnify Cedarburg as demanded. On June 18, 2012, Cedarburg responded to the Company's letter and, on July 27, 2012, the Company sent another letter to Cedarburg reiterating its position that the Company has no obligation to indemnify Cedarburg as demanded. On December 18, 2012, Cedarburg responded to the Company's letter and, on January 15, 2013, the Company sent another letter to Cedarburg reiterating its position that the Company has no obligation to indemnify Cedarburg as demanded. As of November 7, 2014, the Company has not received any further communication from Cedarburg with respect to its demand for indemnification as set forth in the Demand Letter. The Company intends to vigorously contest Cedarburg's demand as set forth in the Demand Letter.

Note 8. Related Party Transactions

On June 27, 2012, Carl DeSantis, a director and major shareholder of the Company and a member of CD Financial and E. Gerald Kay, the Company's Chief Executive Officer, Chairman of the Board, President and a

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major shareholder each entered into Limited Guaranty Agreements with PNC in the amount of \$1.0 million each. (See Note 5. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt).

Neither Mr. DeSantis nor Mr. Kay received any compensation from the Company in connection with these guarantees. The Individual Guarantees automatically terminated upon the satisfaction of certain conditions set forth in the Loan Agreement which included the Company repaying an aggregate amount of \$1.0 million of principal on the Term Loan and the Company meeting a minimum EBITDA, as defined in the Loan Agreement, of \$1.5 million for the fiscal year ended June 30, 2013. These two conditions were met by the Company on November 1, 2013 and Mr. DeSantis and Mr. Kay were released as guarantors under the Individual Guarantees.

See Note 5. Senior Credit Facility, Subordinated Convertible Note, net - CD Financial, LLC and other Long Term Debt for related party securities transactions.

See Note 7(a). Leases for related party lease transactions.

Note 9. 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 GAAP which establishes standards for reporting information about a company's operating segments.

The Company has divided its operations into three reportable segments as follows: Contract Manufacturing, Branded Proprietary Products and Other Nutraceutical Businesses. The international sales, concentrated primarily in Europe and Canada, for the three months ended September 30, 2014 and 2013 were \$2,283 and \$3,085, respectively.

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Financial information relating to the three months ended September 30, 2014 and 2013 operations by business segment are as follows:

		Sales, Net			Segment Gross Profit	Depreciation	Capital Expenditures
		U.S. Customers	International Customers	Total			
Contract Manufacturing	2014	\$ 5,743	\$ 2,065	\$ 7,808	\$ 1,151	\$ 60	\$ 351
	2013	5,429	2,862	8,291	1,366	66	-
Branded Proprietary Products	2014	129	210	339	6	-	1
	2013	132	160	292	57	1	-
Other Nutraceutical Businesses	2014	427	8	435	144	1	-
	2013	545	63	608	174	2	2
Total Company	2014	6,299	2,283	8,582	1,301	61	352
	2013	6,106	3,085	9,191	1,597	69	2

	Total Assets as of	
	September 30, 2014	June 30, 2014
Contract Manufacturing	\$ 9,683	\$ 7,752
Branded Proprietary Products	1,553	1,781
Other Nutraceutical	1,908	2,050
Total Company	\$ 13,144	\$ 11,583

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 Quarterly Report on Form 10-Q 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 herein and the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

The Company is engaged primarily in the manufacturing, distributing, marketing and sales of vitamins, nutritional supplements and herbal products. The Company's customers are located primarily in the United States, Luxembourg and Canada.

Business Outlook

Our future results of operations and the other forward-looking statements contained in this Quarterly Report on Form 10-Q, including this MD&A, involve a number of risks and uncertainties—in particular, the statements regarding our goals and strategies, new product introductions, plans to cultivate new businesses, pending divestitures, future economic conditions, revenue, pricing, gross margin and costs, the tax rate, and potential legal proceedings. We are focusing our efforts to improve operational efficiency and reduce spending that may have an impact on expense levels and gross margin. In addition to the various important factors discussed above, a number of other important factors could cause actual results to differ significantly from our expectations. See the risks described in "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

We continue to focus on our core businesses and maintaining our cost structure in line with our sales. Our selling and administrative expenses were slightly lower in the three months ended September 30, 2014, by \$85,000, compared to the same period a year ago. This represents a decline of 9%, whereas our sales in the three months ended September 30, 2014 declined approximately 7% compared to the three months ended September 30, 2013. The decrease of approximately \$0.6 million was primarily in our Contract Manufacturing Segment (\$0.5 million) due to lower sales to our major customer, Herbalife in the amount of \$1.1 million which was offset, in part, by an increase in sales to our other major customer in this segment, Life Extensions, of \$0.8 million. Our sales to one of our largest customers has been adversely affected by currency controls in their Venezuelan business and product import controls in their Argentina business. At this time our customer does not expect the situation in either market to improve in the foreseeable future.

In our Branded Product Segment, we continue to maintain and strengthen the relationships developed in the fiscal year ended June 30, 2013, which were focused primarily in the international markets of Canada, Mexico and Asia. We are also developing new products, including branded products for solid dosage, which will be manufactured by MDC and sold using our AgroLabs brand. We believe that this will increase sales and further leverage our fixed manufacturing and selling costs in each of these segments as we diversify our branded product offerings to our existing and prospective customers. We forecasted that we would sell new items in our Canada market this three month period ended September 30, 2014, however, due to delays in the approval process of the labels and other artwork, the sales of these new items are expected to ship in our quarter ending on December 31, 2014. Although we are not expecting the dollar amount to be significant to our consolidated net sales, this segment was successful in introducing new products to its existing customer base which should result in additional exposure of the AgroLabs brand. For the three months ended September 30, 2014, our net sales in the Branded Product Segment increased by 16%, however, the margins on these sales decreased from approximately 20% to 2% due to the nature of these sales, as they were primarily to liquidators at reduced margins in order to sell through expiring products in our inventory.

In the three months ended September 30, 2014, our income from operations was approximately \$0.4 million, which covered our debt service requirements and assists us in continuing to improve our days past due to suppliers and to pay our vendors on a more timely basis than we have been able to in the past.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies in the three months ended September 30, 2014. Critical accounting policies and the significant estimates made in accordance with them are regularly discussed by management with our Audit Committee. Those policies are discussed under “Critical Accounting Policies” in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of our Annual Report on Form 10-K for the year ended June 30, 2014.

Results of Operations

Our results from operations in the following table, sets forth the income statement data of our results as a percentage of net sales for the periods indicated:

	For the three months ended September 30,	
	2014	2013
Sales, net	100.0%	100.0%
Costs and expenses:		
Cost of sales	84.9%	82.6%
Selling and administrative	9.9%	10.2%
	<u>94.8%</u>	<u>92.8%</u>
Income from operations	<u>5.2%</u>	<u>7.2%</u>
Other expense, net		
Interest expense	(2.8%)	(2.7%)
Other income, net	0.1%	-
Change in fair value of derivative liabilities	2.5%	(0.8%)
Other expense, net	<u>(0.2%)</u>	<u>(3.5%)</u>
Income before income taxes	5.0%	3.7%
Federal and state income taxes, net	<u>0.3%</u>	<u>0.5%</u>
Net income	<u>4.7%</u>	<u>3.2%</u>

For the Three Months Ended September 30, 2014 compared to the Three Months Ended September 30, 2013

Sales, net. Sales, net, for the three months ended September 30, 2014 and 2013 were \$8.6 million and \$9.2 million, respectively, a decrease of 6.6%, and are comprised of the following:

	Three months ended September 30,		Dollar Change	Percentage Change
	2014	2013	2014 vs 2013	2014 vs 2013
	<i>(amounts in thousands)</i>			
Contract Manufacturing:				
US Customers	\$ 5,743	\$ 5,429	\$ 314	5.8%
International Customers	2,065	2,862	(797)	(27.8%)
Net sales, Contract Manufacturing	<u>7,808</u>	<u>8,291</u>	<u>(483)</u>	<u>(5.8%)</u>
Branded Nutraceutical Products:				
US Customers	129	132	(3)	(2.3%)
International Customers	210	160	50	31.3%
Net sales, Branded Nutraceutical Products	<u>339</u>	<u>292</u>	<u>47</u>	<u>16.1%</u>
Other Nutraceuticals:				
US Customers	427	545	(118)	(21.7%)
International Customers	8	63	(55)	(87.3%)
Net sales, Other Nutraceuticals	<u>435</u>	<u>608</u>	<u>(173)</u>	<u>(28.5%)</u>
Total net sales	<u>\$ 8,582</u>	<u>\$ 9,191</u>	<u>\$ (609)</u>	<u>(6.6%)</u>

For the three months ended September 30, 2014 and 2013 a significant portion of our consolidated net sales, approximately 81% and 79%, respectively, were concentrated among two customers, Herbalife and Life Extensions, customers in our Contract Manufacturing Segment. Herbalife and Life Extensions represented approximately 63% and 26% and 72% and 15%, respectively of our Contract Manufacturing Segment's net sales in the three months ended September 30, 2014 and 2013, respectively. The loss of any of these customers could have a significant adverse impact on our financial condition and results of operations. Costco Wholesale Corporation ("Costco") (a customer of our Branded Proprietary Products Segment), while not a significant customer of our consolidated net sales represented approximately 78% and 39% of net sales in the three months ended September 30, 2014 and 2013, respectively of the Branded Propriety Products Segment.

The decrease in net sales of approximately \$0.6 million was primarily the result of:

- Net sales decreased in our Contract Manufacturing Segment by \$0.5 million primarily due to a decrease in net sales volume to Herbalife of approximately \$1.1 million (primarily in the international markets for Herbalife) offset by, in part, increased sales volumes to one of our major customers, Life Extensions, in the three months ended September 30, 2014, of approximately \$0.8 million compared to the comparable prior period.
- Net sales in our Branded Nutraceutical Segment increased by approximately \$47,000 in the three months ended September 30, 2014, primarily as the result of the increased sales volume of \$0.2 million to Costco. These sales were offset by promotional costs and resulted in an increase of \$150,000 in net sales from Costco. Other customer sales in this segment decreased by approximately \$90,000 as we were selling through short dated products at reduced pricing.
- Net sales in our Other Nutraceutical segments decreased by \$0.1 million primarily as a result of decreased sales volumes to customers of IHT Health Products.

Cost of sales. Cost of sales decreased by \$0.3 million to \$7.3 million for the three months ended September 30, 2014, as compared to \$7.6 million for the three months ended September 30, 2013. Cost of sales increased as a percentage of sales to 84.8% for the three months ended September 30, 2014 as compared to 82.6% for the three months ended September 30, 2013. The decrease in the cost of goods sold amount, as well as the increase in the cost of goods sold as a percentage of net sales, was primarily the result of the increased sales to Life Extension. The cost of the raw materials for the Life Extension finished goods, on average, cost more per bottle than our other customers in the Contract Manufacturing Segment as they tend to use raw materials with trademarked characteristics which limits the ability to negotiate pricing. A secondary cause is the production of more capsules than tablets. There is a higher loss factor in the production of capsules than in tablets. Our Contract Manufacturing Segment had a \$0.3 million decrease in the cost of goods sold with the Branded Nutraceutical Segment increasing by \$0.1 million (primarily as the result of increased sales and secondarily as the result of increased markdowns to inventory) and a decrease of \$0.1 million in the Other Nutraceutical Segment as a result of decreased sales.

Selling and Administrative Expenses. There was a slight decrease in selling and administrative expenses of \$85,000 in the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. As a percentage of sales, net, selling and administrative expenses were approximately 10% for each of the three months ended September 30, 2014 and 2013. No one expense within our selling and administrative expenses changed by more than \$24,000.

Other income (expense), net. Other income (expense), net was approximately \$17,000 for the three months ended September 30, 2014 compared to \$0.3 million for the three months ended September 30, 2013, and is composed of:

	Three months ended September 30,	
	2014	2013
	(dollars in thousands)	
Interest expense	\$ (240)	\$ (248)
Change in fair value of derivative instruments	214	(73)
Other, net	9	2
Other income (expense), net	<u>\$ (17)</u>	<u>\$ (319)</u>

The change in fair value of derivative liabilities was mainly the result of the decreased volatility in the closing trading price of our common stock from 88.5% as of June 30, 2014 to 79.4% of September 30, 2014. The volatility of the closing trading price of our stock is one of the variables used to calculate the estimated fair value of our derivative liabilities associated with the underlying derivative instruments.

Federal and state income tax, net. For the three months ended September 30, 2014 and 2013, we had a state tax expense of approximately \$29 and \$43, respectively. We continue to maintain a full reserve on our deferred tax assets as it has been determined that based upon past losses, the Company's past liquidity concerns and the current economic environment, that it is "more likely than not" the Company's deferred tax assets may not be realized. The increase in the state tax expense from 2013 to 2014 was the result of MDC using all of its state net operating losses in the fiscal year ended 2013 tax period, all of our other subsidiaries still have adequate net operating losses for state income tax purposes to absorb any taxable income for state tax purposes.

Net income. Our net income for the three months ended September 30, 2014 and 2013 was approximately \$0.4 million and \$0.3 million, respectively.

Seasonality

The nutraceutical business tends to be seasonal. We have found that in our first fiscal quarter ending on September 30th of each year, orders for our branded proprietary nutraceutical products usually slow (absent the addition of new customers or a new product launch with a significant first time order), as buyers in various markets may have purchased sufficient inventory to carry them through the summer months. Conversely, in our second fiscal quarter, ending on December 31st of each year, orders for our products increase as the demand for our branded nutraceutical products, as well as sales orders from our customers in our contract manufacturing segment, seem 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 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. 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 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 three months ended September 30,	
	2014	2013
	<i>(dollars in thousands)</i>	
Net cash (used in) provided by operating activities	\$ (495)	\$ 769
Net cash used in investing activities	\$ (168)	\$ (2)
Net cash provided by (used in) financing activities	\$ 506	\$ (342)
Cash at end of period	\$ 294	\$ 480

At September 30, 2014 and June 30, 2014, our working capital deficit was approximately \$2.5 million. Our current assets and current liabilities each increased by approximately \$1.3 million.

Net cash used in operating activities of \$0.5 million in the three months ended September 30, 2014, includes net income of approximately \$0.4 million. After excluding the effects of non-cash expenses, including depreciation and amortization, and changes in the fair value of derivative liabilities, the adjusted cash provided from operations before the effect of the changes in working capital components was \$0.3 million. Cash used in operations from our working capital assets and liabilities in the amount of approximately \$0.8 million and was primarily the result of increases in inventories of \$1.3 million and \$0.1 million in each of accounts receivable and other current assets and offset, in part, by a net increase in accounts payable and accrued expenses and other liabilities of approximately \$0.7 million each.

Net cash provided by operating activities of \$0.8 million in the three months ended September 30, 2013, includes net income of approximately \$0.3 million. After excluding the effects of non-cash expenses, including depreciation and amortization, and changes in the fair value of derivative liabilities, the adjusted cash provided from operations before the effect of the changes in working capital components was \$0.5 million. Cash was provided by operations from our working capital assets and liabilities in the amount of approximately \$0.2 million and was the result of an decrease in accounts receivable of \$0.4 million and offset, in part, by a net decrease in accounts payable and accrued expenses and other liabilities and an increase in inventories of approximately \$0.1 million each.

Cash used in investing activities was used for the purchase of machinery and equipment for approximately \$0.2 million in the three months ended September 30, 2014, compared to using approximately \$2,000 for the purchase of machinery and equipment in the three months ended September 30, 2013.

Cash provided from financing activities was approximately \$0.5 million for the three months ended September 30, 2014, \$8.8 million from advances under our revolving credit facility and \$0.2 million from proceeds under our convertible line of credit for equipment financing offset, in part, by repayments of advances under our revolving credit facility of \$8.3 million and principal under our term note in the amount of \$0.1 million. Cash used in financing activities was approximately \$0.3 million for the three months ended September 30, 2013, \$9.1 million for repayments under our revolving credit facility and repayments of principal under our term note in the amount of \$0.1 million, offset by advances under our revolving credit facility of \$8.9 million

As of September 30, 2014, we had cash of \$0.3 million, funds available under our revolving credit facility of approximately \$0.9 million and a working capital deficit of approximately \$2.5 million. Our working capital deficit includes \$4.6 million outstanding under our revolving line of credit which is not due until July 2017 but classified as current due to a subjective acceleration clause that could cause the advances to become currently due. (See Note 5 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). Furthermore, we had income from operations of approximately \$0.4 million in the three months ended September 30, 2014. After taking into consideration our interim results and current projections, management believes that operations, together with the revolving credit facility will support our working capital requirements through the period ending September 30, 2015.

Our total annual commitments at September 30, 2014 for long term non-cancelable leases of approximately \$599,000 consists of obligations under operating leases for facilities and operating lease agreements for the rental of warehouse equipment, office equipment and automobiles.

On May 15, 2012, Cedarburg Pharmaceuticals, Inc. ("Cedarburg") sent us a letter (the "Demand Letter") setting forth a demand for indemnification under the Stock Purchase Agreement, dated March 17, 2009 (the "Cedarburg SPA"), by and among Cedarburg, InB: Hauser Pharmaceutical Services, Inc., InB: Paxis Pharmaceuticals, Inc. and the Company. In the Demand Letter, Cedarburg demanded payment by us of \$0.6 million in respect of the Company's indemnification obligations under the Cedarburg SPA. In addition, in the Demand Letter, Cedarburg informed us that there are also environmental issues pending which may lead to additional costs to Cedarburg which will likely be in excess of \$0.3 million.

On May 30, 2012, we sent a letter responding to the Demand Letter and setting forth our position that we have no obligation to indemnify Cedarburg as demanded. On June 18, 2012, Cedarburg responded to our letter and, on July 27, 2012, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. On December 18, 2012, Cedarburg responded to our letter and, on January 15, 2013, we sent another letter to Cedarburg reiterating our position that we have no obligation to indemnify Cedarburg as demanded. As of November 7, 2014, we have not received any further communication from Cedarburg with respect to its demand for indemnification as set forth in the Demand Letter. We intend to vigorously contest Cedarburg's demand as set forth in the Demand Letter.

Capital Expenditures

The Company's capital expenditures for the three months ended September 30, 2014 and 2013 were approximately \$0.4 million (\$0.2 million funded with capitalized lease financing) and \$2,000, respectively. The Company has budgeted approximately \$0.5 million for capital expenditures for fiscal year 2015. The total amount is expected to be funded from lease financing and cash provided from the Company's operations.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncements

None.

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

Not applicable.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified by the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2014, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the three months ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

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, 2014, 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. There have been no material changes to our risk factors from those disclosed in our Form 10-K for the year ended June 30, 2014.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURE

Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits

Exhibit Number

- | | |
|------|---|
| 10.1 | Convertible Line of Credit Note, dated September 22, 2014, by and among INB: Manhattan Drug Company and PNC Equipment Finance LLC in the original principal amount of \$350,000 |
| 10.2 | Cross Collateralization Agreement, dated September 22, 2014, by and among INB: Manhattan Drug Company, PNC Bank National Association and PNC Equipment Finance LLC |
| 10.3 | Security Agreement, dated September 22, 2014 by and among INB: Manhattan Drug Company and PNC Equipment Finance LLC |
| 10.4 | Guaranty and Suretyship Agreement, dated September 30, 2014, by and among Integrated BioPharma, Inc. and PNC Equipment Finance LLC |
| 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. |
| 101 | The following financial information from Integrated BioPharma, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three months ended September 30, 2014 and 2013, (ii) Condensed Consolidated Balance Sheets as of September 30, 2014 and June 30, 2014, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2014 and 2013, and (iv) the Notes to Condensed Consolidated Statements. |

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.

Date: November 7, 2014

By: /s/ E Gerald Kay
E, Gerald Kay,
President and Chief Executive Officer

Date: November 7, 2014

By: /s/ Dina L. Masi
Dina L. Masi,
Chief Financial Officer & Senior Vice President

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, E. Gerald Kay certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated BioPharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: November 7, 2014

By: /s/ E. Gerald Kay

Name: E. Gerald Kay

Title: President and Chief Executive Officer

Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dina L. Masi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated BioPharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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: November 7, 2014

By: /s/ Dina L. Masi

Name: Dina L. Masi

Title: Chief Financial Officer & Senior Vice President

CERTIFICATION OF PERIODIC REPORT

As adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q for the third quarter ended September 30, 2014 of Integrated BioPharma, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), E. Gerald Kay, the President and Chief Executive Officer of Integrated BioPharma, Inc. certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies the Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

Dated: November 7, 2014

By: /s/ E. Gerald Kay
E. Gerald Kay
President and Chief Executive Officer

CERTIFICATION OF PERIODIC REPORT

As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q for the third quarter ended September 30, 2014 of Integrated BioPharma, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Dina L. Masi, the Senior Vice President and Chief Financial Officer of Integrated BioPharma, Inc. certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to her knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies the Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

Dated: November 7, 2014

By: /s/ Dina L. Masi
Dina L. Masi
Chief Financial Officer & Senior Vice President