

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

FORM 10-K

Annual Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2012

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)

Registrant's telephone number: (888) 319-6962

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class  
None

Name of Each Exchange on Which Registered  
None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$.002 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes |  | No |  |

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes |  | No |  |

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 (1) submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports).

Yes |  | No |  |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

|  |

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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer |  |  
Accelerated Filer |  |  
Non-accelerated Filer |  |  
Smaller reporting company |  |

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

Yes |  | No |  |

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the trading price of the Registrant's Common Stock on December 31, 2011 was \$243,843.

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

Class  
Common Stock, \$.002 par value

Outstanding at October 13, 2012  
21,080,174 Shares

DOCUMENTS INCORPORATED BY REFERENCE

The information required by part III will be incorporated by reference from certain portions of a definitive Proxy Statement which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

# INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

## FORM 10-K ANNUAL REPORT

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K may constitute forward-looking statements as defined in Section 27A of the Securities Act of 1933 (the “Securities Act”), Section 21E of the Securities Exchange 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 (“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 this Annual Report. 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 their businesses described in Item 1A of this Annual Report on Form 10-K 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 its 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 Annual Report on Form 10-K 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.

## PART I

### Item 1. Description of Business

#### *General*

Integrated BioPharma, Inc., a Delaware corporation (together with its subsidiaries, 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. 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 nutraceutical business includes: InB:Manhattan Drug Company, Inc. (“MDC”), which manufactures vitamins and nutritional supplements for sale to distributors, multilevel marketers and specialized health-care providers; 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, Naturally Pomegranate, Pomegranate with ACAI and Reservatol, Coconut Water, Naturally Aloe, Aloe Pure, Naturally Thai Mangosteen, Peaceful Sleep, Green Envy, ACAI Extra, Superfruit Immune, 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 The Vitamin Factory, Inc. (the “Vitamin Factory”) which sells private label MDC products, as well as our AgroLabs products, through the Internet.

The Company also distributes fine natural chemicals through its wholly-owned subsidiary IHT Health Products, Inc. and is a distributor of certain raw materials for DSM Nutritional Products, Inc.

#### *Significant Revenues from Major Customers*

For the fiscal years ended June 30, 2012 and 2011 a significant portion of our net sales, approximately 77% and 79%, respectively, were concentrated among two customers, Herbalife International of America, Inc. (“Herbalife”), and Costco Wholesale Corporation. The loss of either of these customers could have a significant adverse impact on our financial condition and results of operations.

#### *Raw Materials*

The principal raw materials used in the manufacturing process in the Company’s nutraceutical business are natural and synthetic vitamins, minerals, herbs, related nutritional supplements, gelatin capsules, coating materials, organic and natural fruit extracts, fruit juices and the necessary components for packaging the finished products. The raw materials are available from numerous sources within the United States and abroad. The gelatin capsules, coating materials and packaging materials are similarly widely available. The Company generally purchases its raw materials, on a purchase order basis, without long-term commitments.

#### *Development and Supply Agreement*

Effective July 15, 2009, the Company entered into a development and supply agreement with Herbalife and certain of its affiliates, pursuant to which the Company develops, manufactures and supplies certain nutritional products to Herbalife. This agreement was amended on October 13, 2009 to extend the term through December 31, 2012. This agreement does not, however, obligate the Company to supply any particular amount of goods to Herbalife, nor does it obligate Herbalife to commit to a minimum order, if any. In its ordinary course of business, the Company has similar agreements with other customers in connection with its contract manufacturing business.

## ***Seasonality***

The nutraceutical business tends to be seasonal. We have found that in our first fiscal quarter ending on September 30<sup>th</sup> 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 31<sup>st</sup> of each year, orders for our products increase as the demand for our 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 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.

## ***Variability of Quarterly Results and Impact of Advertising***

In connection with our business plan to continue to market our branded nutraceutical business, advertising and promotional expenses were \$2.9 million in the fiscal year ended June 30, 2012, as compared to \$5.7 million in the fiscal year ended June 30, 2011. As we continue this program we may continue to incur increased advertising and promotional expenses. Such expenses include promotional activities conducted through the retail trade, distributors or directly with consumers, including in-store displays, product placement programs, coupons, radio and print advertising, and other similar activities. Since such expenses may occur in fiscal quarters before increases, if any, in revenues occur as a result of the advertising and promotion, the program may increase variability of our quarterly results. Other factors that also may influence the variability of quarterly results include general economic and industry conditions that affect consumer spending, changing consumer demands and current news on nutritional supplements. Accordingly, a comparison of our results of operations from consecutive periods is not necessarily meaningful, and our results of operations for any period are not necessarily indicative of future periods.

## ***Government Regulations***

The manufacturing, processing, formulation, packaging, labeling and advertising of our products are subject to regulation by a number of federal agencies, including the Food and Drug Administration ("FDA"), the Federal Trade Commission ("FTC"), the United States Postal Service, the Consumer Product Safety Commission and the United States Department of Agriculture. Our activities are also regulated by various state and local agencies in which our products are sold. The FDA is primarily responsible for the regulation of the manufacturing, labeling and sale of our products. The operation of our vitamin manufacturing facility is subject to regulation by the FDA as a dietary supplement manufacturing facility. The United States Postal Service and the FTC regulate advertising claims with respect to the Company's products. In addition, we manufacture and market certain of our products in compliance with the guidelines promulgated by the United States Pharmacopoeia Convention, Inc. ("USP") and other voluntary standard organizations.

The Dietary Supplement Health and Education Act of 1994 ("DSHEA") was enacted on October 25, 1994. The Dietary Supplement Act amends the Federal Food, Drug and Cosmetic Act ("FFD&CA") by defining dietary supplements, which include vitamins, minerals, nutritional supplements and herbs, and by providing a regulatory framework to ensure safe, quality dietary supplements and the dissemination of accurate information about such products. The FDA is generally prohibited from regulating the active ingredients in dietary supplements as food additives, or as drugs unless product claims trigger drug status. The DSHEA requires the FDA to regulate dietary supplements so as to guarantee consumer access to beneficial dietary supplements, allowing only truthful and proven claims. Generally, dietary ingredients that were on the market before October 15, 1994 may be sold without FDA pre-approval and without notifying the FDA. However, new dietary ingredients (those not used in dietary supplements marketed before October 15, 1994) require pre-market submission to the FDA of evidence of a history of their safe use, or other evidence establishing

that they are reasonably expected to be safe. There can be no assurance that the FDA will accept the evidence of safety for any new dietary ingredient we may decide to use. The FDA's refusal to accept such evidence could result in regulation of such dietary ingredients as food additives, requiring the FDA pre-approval based on newly conducted, costly safety testing.

DSHEA provides for specific nutritional labeling requirements for dietary supplements effective January 1, 1997. The Dietary Supplement Act permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well-being from consumption of a dietary ingredient or the role of a nutrient or dietary ingredient in affecting or maintaining the structure or function of the body. The FDA requires the Company to notify the FDA of such statements. There can be no assurance that the FDA will not consider particular labeling statements used by us to be drug claims rather than acceptable statements of nutritional support, necessitating approval of a costly new drug application, or re-labeling to delete such statements. It is also possible that the FDA could allege false statements were submitted to it if structure/function claim notifications were either non-existent or so lacking in scientific support as to be plainly false.

As authorized by DSHEA, the FDA adopted Good Manufacturing Practices ("GMP") specifically for dietary supplements. These new GMP regulations, which became effective in June 2008, are more detailed than the GMPs that previously applied to dietary supplements and require, among other things, dietary supplements to be prepared, packaged and held in compliance with specific rules, and require quality controls similar to those required by GMP regulations for drugs. We believe our manufacturing and distribution practices comply with the new rules.

Dietary supplements are also subject to the Nutrition, Labeling and Education Act ("NLEA"), which regulates health claims, ingredient labeling and nutrient content claims characterizing the level of a nutrient in a product. NLEA prohibits the use of any health claim for dietary supplements unless the health claim is supported by significant agreement within the scientific community and is pre-approved by the FDA.

In certain markets, including the United States, claims made with respect to dietary supplements may change the regulatory status of our products. For example, in the United States, the FDA could possibly take the position that claims made for some of our products classify those products as new drugs requiring pre-approval by the FDA. The FDA could also place those products within the scope of its over-the-counter ("OTC") drug regulations and require us to comply with a published FDA OTC monograph. OTC monographs dictate permissible ingredients, appropriate labeling language and require the marketer or supplier of the products to register and file annual drug listing information with the FDA. We do not, at present, sell OTC drug products. If the FDA were to assert that our product claims cause them to be considered new drugs or to fall within the scope of OTC regulations, we would be required to either, file a new drug application, comply with the applicable monographs, or change the claims made in connection with those products.

The FTC regulates the marketing practices and advertising of all our products. In recent years, the FTC instituted enforcement actions against several dietary supplement companies for false and misleading marketing practices and advertising of certain products. These enforcement actions have resulted in consent decrees and monetary payments by the companies involved. Under FTC standards, the dissemination of any false advertising constitutes an unfair or deceptive act or practice actionable under Section 45 of the Fair Trade Commission Act and a false advertisement actionable under Section 52 of that Act. A false advertisement is one that is "misleading in a material respect." In determining whether an advertisement or labeling information is misleading in a material respect, the FTC determines not only whether overt and implied representations are false but also whether the advertisement fails to reveal material facts. Under the FTC's standards, any health benefit representation made in advertising must be backed by "competent and reliable scientific evidence" by which the FTC means: "tests, analyses, research studies, or other evidence based upon the expertise of professionals in the relevant area, that have been conducted and evaluated in an objective manner by persons qualified to do so, using procedures generally accepted by the profession to yield accurate and reliable results."

The FTC has increased its review of the use of the type of testimonials that may be used to market our products. The FTC requires competent and reliable evidence substantiating claims and testimonials at the time that such claims of health benefit are first made. The failure to have this evidence when product claims are first made violates the Federal Trade Commission Act. Although the FTC has never threatened an enforcement action against the Company for the advertising of its products, there can be no assurance that the FTC will not question the advertising for our products in the future.

We believe we are currently in compliance with all applicable government regulations. We cannot predict what new legislation or regulations governing our operations will be enacted by legislative bodies or promulgated by agencies that regulate its activities. We recognize our industry has come under increased scrutiny, principally due to the FDA's investigation of the use of ephedrine alkaloids (ephedra). The FDA is expected to increase its enforcement activity against dietary supplements that it considers to be in violation of FFD&CA. In particular, the FDA is increasing its enforcement of DSHEA provisions. Those activities will be enhanced by the appropriation for increased FDA budgets for dietary supplement regulation enforcement.

We believe we may become subject to additional laws or regulations administered by the FDA or other federal, state, or foreign regulatory authorities. We also believe the laws or regulations which are considered favorable may be repealed, or more stringent interpretations of current laws or regulations may be implemented. Any or all of such requirements could be a burden to us. Future regulations could require us to:

- change the way we conduct business;
- use expanded or different labeling;
- recall, reformulate or discontinue certain products;
- keep additional records;
- increase the available documentation of the properties of its products; and/or
- increase the scientific proof of product ingredients, safety, and/or usefulness.

### ***Competition***

The business of manufacturing, distributing and marketing vitamins and nutritional supplements is highly competitive. Many of our competitors are substantially larger and have greater financial resources with which to manufacture and market their products. In particular, the retail segment is highly competitive. Many direct marketers not only focus on selling their own branded products, but offer national brands at discounts as well. Many competitors have established brand names recognizable to consumers. In addition, major pharmaceutical companies offer nationally advertised multivitamin products.

Many of our competitors in the retailing segment have the financial resources to advertise freely, to promote sales and to produce sophisticated catalogs. In many cases, such competitors are able to offer price incentives for retail purchasers and to offer participation in frequent buyers programs. Some retail competitors also manufacture their own products whereby they have the ability and financial incentive to sell their own product.

We intend to compete by stressing the quality of our manufactured product, providing prompt service, competitive pricing of products in our marketing segment and by focusing on niche products in international retail markets.

### ***Research and Development Activities***

We do not conduct any significant research and development activities.

### ***Environmental Compliance***

We are subject to regulation under Federal, state and local environmental laws. While we believe we are in material compliance with applicable environmental laws, continued compliance may require substantial

capital expenditures. We have not incurred any major costs for any environmental compliance during the years ended June 30, 2012 and 2011.

### ***Employees***

As of September 28, 2012, we had approximately 108 full time employees of whom 64 belong to the local unit of the Teamsters Union and are covered by a collective bargaining agreement which expires on August 30, 2015. The 44 employees not covered by a collective bargaining agreement consisted of approximately 22 administrative and professional personnel, 13 laboratory personnel and 9 production and shipping personnel. We consider our relations with our employees to be good.

In January 2010, we entered into a new agreement with a Professional Employer Organization (“PEO”) which established a three-way relationship between our non union employees, the PEO and us. We and the PEO are co-employers of our non-union employees. The PEO has taken responsibility for our Human Resources administration and compliance, which allows us to continue to exercise control over our business while accessing quality employee benefits. We have been using PEOs since January 2007.

### ***Available Information***

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These filings are available to the public via the Internet at the SEC's website located at <http://www.sec.gov>. You may also read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. For more information, please call the SEC at 1-800-SEC-0330.

Our website is located at [www.integratedbiopharma.com](http://www.integratedbiopharma.com). You may request a copy of our filings with the SEC (excluding exhibits) at no cost by writing or telephoning us at the following address or telephone number:

Integrated BioPharma, Inc.  
225 Long Avenue  
Hillside, New Jersey 07205  
Tel: 888-319-6962  
Attn: Investor Relations

## Item 1A. Risk Factors

*Please carefully consider the following risk factors which could materially adversely affect our business, financial condition, operating results and cash flows. The risk factors described below are not the only ones we face. Risks and uncertainties not known to us currently, or that we currently deem immaterial, also may materially adversely affect our business, financial condition, operating results and cash flows.*

### **We have incurred losses and could incur continued losses and negative cash flow in the near term.**

We have incurred recurring operating losses and negative operating cash flows for six consecutive years and expect to continue to incur net losses in the near term and generate negative cash flow until we can produce consistent sufficient revenues to cover our costs through the sale of our products.

We incurred a net loss of approximately \$2.7 million and had negative cash flows from our operating activities of approximately \$771,000 for the fiscal year ended June 30, 2012. At June 30, 2012, we had cash of approximately \$145,000 and a working capital deficit of approximately \$3.5 million. Our working capital deficit includes (i) \$2.7 million outstanding under our revolving line of credit which is not due until July 2017, but is classified as current due to a subjective acceleration clause that could cause the advances to become currently due and (ii) \$1.0 million in long term debt which is also classified as current due to a prepayment provision which requires the company to sell its iBio, Inc. common stock if the trading price per share falls below a certain level and use the proceeds to repay our term loan with PNC Bank, National Association. (See Note 8 to the financial statements included in this Annual Report on Form 10-K). These factors have raised substantial doubt as to our ability to continue as a going concern in previous years and we may continue to generate net losses for the foreseeable future. We cannot assure when we will achieve profitability, although we have taken several actions to correct the continued losses by reducing our selling and administrative expenses by approximately \$2.4 million or 23% and refinancing our debt to, among other things, provide for a maturity of 5 years.

### **We have substantial indebtedness, which may decrease our flexibility, increase our borrowing costs and adversely affect our liquidity.**

We currently have (i) \$11.7 million in senior secured financing under the Loan Agreement, dated as of June 27, 2012 (the "Loan Agreement"), by and among the Company, MDC, AgroLabs, IHT Health Products, Inc., IHT Properties Corp., Vitamin Factory and PNC Bank, National Association ("PNC"), (ii) a \$5.4 million Amended and Restated Convertible Promissory Note issued by the Company to CD Financial on June 27, 2012 pursuant to the Amended and Restated Securities Purchase Agreement, dated as of June 27, 2012, between the Company and CD Financial (the "CD SPA"), and (iii) a \$1.7 million Promissory Note issued by the Company to CD Financial on June 27, 2012 pursuant to the CD SPA (the documents referred to in clauses (i), (ii) and (iii) immediately above are referred to herein as the "Financing Agreements").

Our consolidated indebtedness may have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and increasing borrowing costs.

Our level of indebtedness can have important consequences. For example, it may require a substantial portion of our cash flow from operations for the payment of principal of, and interest on, our indebtedness and reduce our ability to use our cash flow to fund working capital, capital expenditures and general corporate requirements or to pay dividends; and limit our flexibility to adjust to changing business and market conditions and make us more vulnerable to a downturn in general economic conditions as compared to our competitors.

There are various financial covenants and other restrictions in the Financing Agreements. If we fail to comply with any of these requirements, the related indebtedness (and other unrelated indebtedness) could become due and payable prior to its stated maturity. A default under any Financing Agreement may also significantly affect our ability to obtain additional or alternative financing. For example, PNC's ongoing

obligation to extend credit under the Loan Agreement is dependent upon our compliance with these covenants and restrictions.

Our ability to make scheduled payments or to refinance our obligations with respect to indebtedness will depend on our operating and financial performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond our control. Our inability to refinance our indebtedness when necessary or to do so upon attractive terms would materially and adversely affect our liquidity and our ongoing results of operations.

**Our revenue could decline significantly if we lose one or more of our most significant customers, which could have a significant adverse impact on us.**

A significant portion of our revenues are concentrated among two customers, Herbalife and Costco Wholesale Corporation. For the fiscal years ended June 30, 2012 and 2011, approximately 77% and 79%, respectively, of our net sales were derived from these two customers. The loss of either of these customers could have a significant adverse impact on our financial condition and results of operations.

**Complying with new and existing government regulation, both in the U.S. and abroad, could increase our costs significantly and adversely affect our financial results.**

The processing, formulation, manufacturing, packaging, labeling, advertising, distribution and sale of our products are subject to regulation by several U.S. federal agencies, including the FDA, the FTC, the Consumer Product Safety Commission, the Department of Agriculture and the EPA, as well as various state, local and international laws and agencies of the localities in which our products are sold. Government regulations may prevent or delay the introduction, or require the reformulation, of our products. Some agencies, such as the FDA or state agencies, could require us to remove a particular product from the market, delay or prevent the import of raw materials for the manufacture of our products, or otherwise disrupt the marketing of our products. Any such government actions would result in additional costs to us, including lost revenues from any additional products that we are required to remove from the market, which additional costs could be material. Any such government actions also could lead to liability, substantial costs and reduced growth prospects. Moreover, there can be no assurance that new laws or regulations imposing more stringent regulatory requirements on the dietary supplement industry will not be enacted or issued. In addition, complying with adverse event reporting requirements imposes additional costs on us, which costs could become significant in the event more demanding reporting requirements are put into place.

Additional or more stringent regulations of dietary supplements and other products have been considered from time to time. These developments could require reformulation of certain products to meet new standards, recalls or discontinuance of certain products that cannot be reformulated, additional record-keeping requirements, increased documentation of the properties of certain products, additional or different labeling, additional scientific substantiation, adverse event reporting or other new requirements. These developments also could increase our costs significantly. For example, the FDA issued rules which became effective in 2008 that imposed substantial new regulatory requirements for dietary supplements, including GMPs. Congress also passed legislation requiring adverse event reporting and related record keeping which imposed additional costs on us. See Item 1. "Business—Government Regulation" for additional information.

**We may be exposed to legal proceedings initiated by regulators or third parties either in the United States or abroad which could increase our costs and adversely affect our reputation, revenues and operating income.**

In the United States and abroad, non-compliance with relevant legislation can result in regulators bringing administrative or, in some cases, criminal proceedings. As manufacturers of nutraceutical products, our products are regulated by various governments and it is common for regulators to prosecute retailers and manufacturers for non-compliance with legislation governing foodstuffs and medicines. Failures by us or our subsidiaries to comply with applicable legislation could occur from time to time and prosecution for any such violations could have a material adverse effect on our business, results of operations, financial condition and

cash flows. Additionally, we are 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 our liquidity, financial condition and cash flows.

**We depend on our senior management, the loss of whom would have an adverse effect on us.**

We presently are dependent upon the executive abilities of our Chairman of the Board, President and Chief Executive Officer, E. Gerald Kay, and our other executive officers. Our business and operations to date chiefly have been implemented under the direction of these individuals, who presently are, and in the future will be, responsible for the implementation of our anticipated plans and programs. The loss or unavailability of the services of one or more of our principal executives would have an adverse effect on us. We may encounter difficulty in our ability to recruit and ultimately hire any replacement or additional executive officers having similar background, experience and qualifications as those of our current executive officers.

**There is no assurance that we will remain listed on an active trading market.**

Our common stock is currently trading on the OTC Bulletin Board. From February 27, 2009 through September 22, 2009, our common stock was trading in the Pink Sheets. Prior to February 27, 2009, our common stock was listed on the NASDAQ Global Market, and there can be no assurance that we will, in the future, be able to meet all the requirements for reinstatement on that exchange. The delisting of our common stock from the NASDAQ Global Market has, and may in the future continue to adversely affect the liquidity and trading of our common stock.

**We have entered into several transactions with entities controlled by some of our officers and directors, which could pose a conflict of interest.**

We have entered into several agreements and arrangements described in our previous SEC filings and to be described in our proxy statement for our 2012 annual meeting of stockholders, including the lease of real property from Vitamin Realty Associates, L.L.C. (“Vitamin Realty”), the sale of our financial debt securities, and issuance of our common stock, which involved transactions with entities significantly owned by members of the Kay family and other of our significant shareholders and/or executive officers, who collectively own a majority of our shares of common stock. Although we believe that these transactions were advantageous to us and were on terms no less favorable to us than could have been obtained from unaffiliated third parties, transactions with related parties can potentially pose a conflict of interest.

**Our Executive Officers and Directors have majority voting power and may take actions that may not be in the best interest of other stockholders, but in their own interest.**

Our Executive Officers and Directors beneficially own approximately 70% of our outstanding shares. If these stockholders act together, they would be able to exert significant control over our management and affairs since significant corporate transactions require stockholder approval. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all our stockholders.

**We have a staggered Board of Directors, which could impede an attempt to acquire the Company or remove our management.**

Our Board of Directors is divided into three classes, each of which serves for a staggered term of three years. This division of our Board of Directors could have the effect of impeding an attempt to take over our company or change or remove management, since only one class will be elected annually. Thus, only approximately one-third of the existing Board of Directors could be replaced at any election of directors.

**Our product liability insurance may be insufficient to cover possible claims against us.**

Our company, like other manufacturers, wholesalers and distributors of vitamin and nutritional supplement products, faces an inherent risk of exposure to product liability claims if, among other things, the use or ingestion of our products, result in sickness or injury. We currently maintain a product liability insurance policy that provides a total of \$5.0 million of coverage per occurrence and \$5.0 million of coverage in the aggregate. However, there can be no assurance that existing or future insurance coverage will be sufficient to cover any possible product liability risks or that such insurance will continue to be available to us on economically feasible terms.

Our nutraceutical products are manufactured using various raw materials consisting of vitamins, minerals, herbs, fruit extracts and other ingredients that we regard as safe when taken as recommended by us and that various scientific studies have suggested may provide health benefits. We could be adversely affected if any of our products or any similar products distributed by other companies should prove or be asserted to be harmful to consumers or should scientific studies provide unfavorable findings regarding the effectiveness of our products.

**We may not be able to obtain raw materials used in certain of our manufactured products.**

The principal raw materials used in the manufacturing process in the Company's nutraceutical business are natural and synthetic vitamins, minerals, herbs, related nutritional supplements, gelatin capsules, coating materials, fruit extracts, fruit juices and the necessary components for packaging the finished products. The raw materials are available from numerous sources within the United States and abroad. The gelatin capsules, coating materials and packaging materials are similarly widely available. We generally purchase our raw materials, on a purchase order basis, without long-term commitments.

Our principal suppliers are Triarco Industries, Inc. and DSM Nutritional Products, Inc. If we are unable to maintain our relationships with our major suppliers, we may not be able to find alternate sourcing of our raw materials or at the same pricing that we receive from our current suppliers and/or quickly enough to make timely shipments to our customers. These factors could decrease our sales and/or increase our cost of sales.

**Current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance.**

Our operating results are impacted by the health of the North American economies. Our business and financial performance, including collection of our accounts receivable, recoverability of assets including investments, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility, recession, etc. Additionally, we may experience difficulties in scaling our operations to react to economic pressures in the U.S.

**We incur significant professional service fees and other control costs that impact our financial condition.**

As a publicly traded corporation, we incur certain costs to comply with regulatory requirements. If regulatory requirements were to become more stringent or if controls thought to be effective later fail, we may be forced to make additional expenditures, the amounts of which could be material. Some of our competitors are privately owned so their accounting and control costs can be a competitive disadvantage for us. Should our sales decline or if we are unsuccessful at increasing prices to cover higher expenditures for internal controls, audits, consultants and legal, our costs associated with regulatory compliance will rise as a percentage of sales.

Other issues and uncertainties may include:

- New accounting pronouncements or changes in accounting policies; and
- Legislation or other governmental action that detrimentally impacts our expenses or reduces sales by adversely affecting our customers.

### **Item 1B. Unresolved Staff Comments**

Not applicable.

### **Item 2. Properties**

On January 5, 2012, MDC, a wholly-owned subsidiary of the Company, entered into a second amendment of the Company's lease (the "Second Lease Amendment") with Vitamin Realty for its office and warehouse space in Hillside, New Jersey. The Second Lease Amendment increased the rentable square footage from an aggregate of 74,898 square feet to 76,161 square feet and extended the expiration date of the lease to January 31, 2026. Also on January 5, 2012, AgroLabs, a wholly-owned subsidiary of the Company, entered into a lease agreement with Vitamin Realty (the "AgroLabs Lease") for an additional 2,700 square feet of warehouse space in Hillside, New Jersey, the term of which expires on January 31, 2019. These facilities are leased from Vitamin Realty, which is 90% owned by our Chairman of the Board, President, Chief Executive Officer and principal stockholder and certain of his family members who are also executive officers and directors of the Company. The Second Lease Amendment provides for minimum annual rental payments of \$533,000, plus increases in real estate taxes and building operating expenses and the AgroLabs Lease provides for minimum annual lease payments of \$27,000 with annual increases plus the proportionate share of operating expenses.

We also own a 40,000 square foot manufacturing facility in Hillside, New Jersey. The space is utilized for MDC's tablet manufacturing operations.

On August 1, 2012, AgroLabs entered into a lease agreement for three office suites located in Dallas, Texas which expires on July 31, 2013 with minimum annual payments of approximately \$24,000.

### **Item 3. Legal Proceedings**

None.

### **Item 4. Mine Safety Disclosure**

Not Applicable.

## PART II

### Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Since September 22, 2009, our common stock has traded on the OTC Bulletin Board under the symbol INBP.OB. From February 27, 2009 to September 22, 2009, our common stock traded in the Pink Sheets under the symbol "INBP.PK". Prior to February 27, 2009 and commencing on February 6, 2007, our common stock traded on the NASDAQ Global Market under the symbol "INBP" and previously traded under the symbol INB on the American Stock Exchange.

Set forth below are the high and low closing prices of the Common Stock as listed on the NASDAQ Global Market, and as quoted in the Pink Sheets and the OTC Bulletin Board, as applicable:

COMMON STOCK	HIGH	LOW
FISCAL YEAR ENDED JUNE 30, 2011		
First Quarter	\$ 0.10	\$ 0.05
Second Quarter	\$ 0.24	\$ 0.05
Third Quarter	\$ 0.23	\$ 0.08
Fourth Quarter	\$ 0.28	\$ 0.05
FISCAL YEAR ENDED JUNE 30, 2012		
First Quarter	\$ 0.07	\$ 0.05
Second Quarter	\$ 0.07	\$ 0.03
Third Quarter	\$ 0.06	\$ 0.02
Fourth Quarter	\$ 0.20	\$ 0.03

#### Holdings

As of June 30, 2012 there were approximately 175 holders of record of the Company's common stock. This number does not include beneficial owners holding shares through nominee names.

#### Dividends

We have not declared or paid a dividend with respect to our common stock during the fiscal years ended June 30, 2012 and 2011, nor do we anticipate paying dividends in the foreseeable future.

## Equity Compensation Plans

The following table provides information, as of June 30, 2012, about the Company's equity compensation plans:

	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,915,338	\$ 5.54	4,174,331
Equity compensation plans not approved by security holders	-	-	-
Totals	<u>2,915,338</u>	<u>\$ 5.54</u>	<u>4,174,331</u>

## Recent Sales of Unregistered Securities

None.

## Item 6. Selected Financial Data and Supplementary Data

Not applicable.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain statements set forth under this caption constitute "forward-looking statements." See "Disclosure Regarding Forward-Looking Statements" on page 3 of this Annual Report on Form 10-K for additional factors relating to such statements.

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 throughout the United States, Luxembourg and Canada.

In the third quarter of our fiscal year ended June 30, 2011, as a result of our ongoing negotiations with the holders (the "Note Payable Holders") of the Company's 8% Notes Payable (the "Notes Payable") in the original principal amount of \$7.0 million (which we have since refinanced) (See Note 7 to the financial statements included in this Annual Report on Form 10-K), we determined, in order to repay the defaulted Notes Payable, which matured on November 15, 2009, and to affect our strategic business plan to revert to our original core business of solid dosage manufacturing, to seek to sell the assets of AgroLabs, a wholly owned subsidiary of the Company. Accordingly, we classified the business assets, liabilities and results of operations of our branded proprietary nutraceutical business as discontinued operations. In the quarter ended March 31, 2012, in connection with our continued negotiations to refinance our defaulted debt, we terminated our plans to sell the assets of AgroLabs in order to use the assets as additional collateral for the financing provided by PNC. (See Note 8 to the financial statements included in this Annual Report on Form 10-K). Accordingly, the financial statements contained in this Annual Report on Form 10-K and the associated results of operations, financial position and cash flows have been reclassified to reflect AgroLabs as part of our ongoing operations for all periods presented.

Our financial results are substantially dependent on net sales. Net sales are partly dependent on the mix of contract manufactured products, our branded proprietary liquid nutraceuticals and other nutraceutical sales, which are difficult to forecast. The varied sales pricing among our products and promotional support in the form of consumer coupons and other sales price allowances, along with the mix of products sold, affects the average selling price that we will realize and has a large impact on our revenue and gross margins in the operations of AgroLabs. Net sales in our operations of AgroLabs is also affected by: the timing of new product introductions and the demand for and market acceptance of our products; actions taken by our competitors, including new product offerings and introductions, marketing programs and pricing pressures, and our response to such actions; our ability to respond quickly to consumer tastes and needs; and the availability of sufficient raw materials and production lead-time from suppliers to meet demand. Factors that could cause demand to be different from our expectations include: customer acceptance of our products and our competitors products; changes in customer order patterns, including order returns; changes in the level of inventory at customers; and changes in business and economic conditions, including conditions in the credit market that could affect consumer confidence and result in lower than expected demand for our products.

We believe that we have the product offerings, established and developing business relationships, facilities, personnel, and competitive and financial resources in place for business success; however, future revenue, costs, gross margins, and profits are all influenced by a number of factors, including those discussed above, all of which are inherently difficult to forecast.

For the fiscal year ended June 30, 2012, our net sales from operations decreased by \$4.1 million or 10.0% to \$36.6 million from \$40.7 million for the fiscal year ended June 30, 2011. Our operating loss increased from \$0.4 million for the fiscal year ended June 30, 2011 to \$0.5 million for the fiscal year ended June 30, 2012. In the fiscal year ended June 30, 2012, our gross profit decreased by approximately \$2.6 million. Our profit margins suffered as a result of changing our product line in our branded product line from primarily selling in a thirty-two ounce bottle, representing a one month supply, to a three ounce single serve bottle sold in multiple packaging sizes ranging from two to twelve packs. Additionally, the cost of sales as a percentage of sales increased as a result of a greater percentage of sales being derived from our contract manufacturing business which business has a higher cost of goods sold percentage (approximately 85%), as compared to the proprietary branded nutraceutical product line (approximately 60%). We cut our selling and administrative expenses by approximately \$2.4 million. We continue to focus on our core businesses and push forward in maintaining our cost structure in line with our sales.

### ***Critical Accounting Policies and Estimates***

#### ***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:

- sales returns and allowances;
- trade marketing and merchandising;
- allowance for doubtful accounts;
- inventory valuation;
- valuation and recoverability of long-lived and intangible assets;
- income taxes and valuation allowances on deferred income taxes; and
- 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.

### ***Allowances for Doubtful Accounts and Sales Returns***

Our management makes judgments as to its ability to collect outstanding receivables and provides allowances for the portion of receivables for which collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding amounts. We continuously monitor payments from our customers and maintain allowances for estimated losses for doubtful accounts in the period they become known.

If the historical data we use 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.

Our return policy in our contract manufacturing business is to only accept returns for defective products. If defective products are returned, our agreement with our customers is to cure the defect and re-ship the product. Based on this policy, when the product is shipped we make an estimate of any potential returns or allowances. With respect to our branded proprietary nutraceutical products, our return policy is also to accept returns for defective products and re-ship replacement items for the damaged product. In most instances, the damaged goods are a small portion of the overall order and we instruct our customer to dispose of the damaged product and we issue them a credit for the dollar amount of the damaged goods plus any cost of disposal. We also estimate and make allowances at the time of shipment.

In the event we have an item that is discontinued in our customers retail stores, we work with our buyer and broker on the sell through and/or return such discontinued item. We make estimates of this event at both the time of shipment and at the time of the notice from our customer that our item has been discontinued, compare this to our recorded sales allowances and record any adjustments based upon the updated knowledge of a known return.

If the historical data we use to calculate the sales allowance for sales returns and other allowances does not reflect the amounts previously recorded, additional provisions for sales allowance may be needed and the future results of operations could be materially affected. In recording any additional sales allowances, a respective charge against income is reflected in net sales, and would reduce the profit margins and operating results in the period in which the increase is recorded.

### ***Trade Marketing and Merchandising***

In order to support the Company's propriety nutraceutical product lines, various promotional activities are conducted through the retail trade, distributors or directly with consumers, including in-store display and product placement programs, feature price discounts, coupons, and other similar activities. The Company regularly reviews and revises, when it deems necessary, estimates of costs to the Company for these promotional programs based on estimates of what will be redeemed by the retail trade, distributors, or consumers. These estimates are made using various techniques, including historical data on performance of similar promotional programs. Differences between estimated expense and actual performance are generally not material and are recognized as a change in management's estimate in a subsequent period. Our total promotional expenditures, including amounts classified as a reduction of net sales, represent approximately 8% and 14% of consolidated net sales in the financial statements contained in this Annual Report on Form 10-K, for the fiscal year ended June 30, 2012 and 2011, respectively. The likelihood exists of materially different reported results if factors such as the level and success of the promotional programs or other conditions differ from expectations.

### ***Inventory Valuation***

Inventories are stated at the lower of cost or market (“LCM”), which reflects management’s estimates of net realizable value. Cost is determined using the first-in, first-out method. As a result of our inventory being manufactured primarily on a purchase order basis, the quantity of both raw materials and finished goods inventory provides for minimal risk of potential overstock or obsolescence.

Mail order inventory is expiration date sensitive. Accordingly, we review this inventory, consider sales levels (by SKU), term to expiration date, potential for retesting to extend expiration date, and evaluate potential for obsolescence or overstock.

### ***Long Lived Assets***

Purchased intangibles consisting of patents and unpatented technological expertise, 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 of such intangibles.

We record impairment losses on other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of any such asset is less than its recorded amount. 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. In the quarter ended March 31, 2012, in connection with our refinancing of our defaulted debt, we terminated our plans to sell the assets of AgroLabs in order to use the assets as additional collateral for the Company’s financing provided by PNC. (See Note 8 to the financial statements included in this Annual Report on Form 10-K). No impairment losses were identified or recorded in the fiscal years ended June 30, 2012 and 2011.

### ***Other Intangible Assets***

Other 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. There was no impairment charge in the fiscal years ended June 30, 2012 and 2011 on the Company’s other intangible assets.

### ***Deferred Taxes***

The Company accounts for income taxes with an asset-and-liability approach that requires the recognition of deferred tax assets and liabilities for the expected tax consequences and events that have been recognized in the Company’s financial statements or tax returns.

In each of the fiscal years ended June 30, 2012 and 2011, we recorded a valuation reserve in the amount equal to 100% of our deferred tax assets and liabilities generated in each of the taxable periods ended June 30, 2012 and 2011. Our management, based on current factors relating to our past results of operations that it is more likely than not that we will not have future federal taxable income which would allow us to realize our net deferred tax assets in the near future.

## ***General Litigation***

From time to time, the Company is a defendant or plaintiff in various legal actions which arise in the normal course of business. As such the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The provision may change in the future due to new developments or changes in circumstances. Changes in the provision could increase or decrease the Company's earnings in the period the changes are made. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters cannot be determined at this time as to the whether there could be material adverse effect on our financial condition or results of operations.

## ***General***

The Company recognizes product sales revenue, the prices of which are fixed and determinable, when title and risk of loss have transferred to the customer, when estimated provisions for product returns, rebates, charge-backs and other sales allowances are reasonably determinable, and when collectability is reasonably assured. Accruals for these items are presented in the 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, charge-backs 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 our products and valuation and/or charge off of slow moving, expired or obsolete inventories.

## ***Recent Accounting Pronouncements***

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard). The revised standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The Company is currently evaluating the effect that this guidance will have on its consolidated financial position, results of operations and cash flows.

In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08, Intangibles—Goodwill and Other (ASC Topic 350): Testing Goodwill for Impairment ("ASU 2011-8"). ASU 2011-8 modifies the impairment test for goodwill and indefinite lived intangibles so that the fair value of a reporting unit is no longer required to be calculated unless the Company believes, based on qualitative factors, that it is more likely than not that the reporting unit's or indefinite lived intangible asset's fair value is less than the carrying value. ASU 2011-8 is effective for fiscal years that begin after December 15, 2011, with early adoption allowed. The Company adopted ASU 2011-8 effective July 1, 2012, which is not expected to have a material effect on the Company's consolidated financial statements.

On June 16, 2011 the FASB issued ASU No. 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income (ASU 2011-05). This update amends ASC Topic 220, Comprehensive Income to provide that total comprehensive income will be reported in one continuous statement or two separate but consecutive statements of financial performance. Presentation of total comprehensive income in the statement of stockholders' equity or the footnotes will no longer be allowed. The calculation of net income and basic and diluted net income per share will not be affected. ASU 2011-005 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, which means that it will be effective for our fiscal year beginning July 1, 2012. Retrospective adoption is required and early adoption is permitted. We do not believe that adoption of ASU 2011-05 will have a significant impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement (Topic 820). This ASU is intended to create consistency between U.S. GAAP and International Financial

Reporting Standards on the definition of fair value and on the guidance on how to measure fair value and on what to disclose about fair value measurements. This ASU will be effective for financial statements issued for fiscal periods beginning after December 15, 2011, with early adoption prohibited for public entities. The Company is currently evaluating the impact ASU 2011-04 will have on its consolidated financial statements.

**Results of Operations (in thousands, except share and per share amount)**

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

	<u>For the Fiscal Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Sales, net	100.0%	100.0%
Costs and expenses:		
Cost of sales	79.2%	75.0%
Selling and administrative	22.2%	25.8%
Total costs and expenses	<u>101.4%</u>	<u>100.8%</u>
Loss from operations	<u>(1.4%)</u>	<u>(0.8%)</u>
Other expense, net:		
Interest expense	(3.0%)	(4.8%)
Forbearance fees	(3.0%)	-
Other income:		
Change in fair value of derivative instruments	0.0%	0.0%
Other income	0.0%	0.1%
Interest and investment income	0.0%	0.0%
Total other income	<u>0.0%</u>	<u>0.1%</u>
Total other expense, net	<u>(6.0%)</u>	<u>(4.7%)</u>
Loss before income taxes	(7.4%)	(5.5%)
Federal and state income tax expense, net	<u>0.0%</u>	<u>0.1%</u>
Net Loss	<u>(7.4%)</u>	<u>(5.6%)</u>

**Year ended June 30, 2012 Compared to the Year ended June 30, 2011**

**Sales, net.** Net sales for the fiscal year ended June 30, 2012 and 2011 were \$36,604 and \$40,665, respectively, a decrease of \$4,061 or 10.0%. The decrease is comprised of the following:

	<u>2012</u>	<u>2011</u>	<u>2012 vs 2011</u>	<u>2012 vs 2011</u>
				<i>(In thousands)</i>
US Customers	\$ 23,804	\$ 28,598	\$ (4,794)	(16.8%)
International Customers	12,800	12,067	733	6.1%
<b>Total net sales</b>	<u>\$ 36,604</u>	<u>\$ 40,665</u>	<u>\$ (4,061)</u>	<u>(10.0%)</u>

For the fiscal year ended June 30, 2012, approximately 77% of total net sales were derived from two customers as compared to approximately 79% of total net sales from the same two customers for the fiscal year ended June 30, 2011. The loss of either of these customers could have an adverse affect on our operations.

The decrease in our net sales is primarily the result of the decrease in the volume of sales to one of our significant customers, Costco Wholesale Corporation, in our proprietary branded nutraceutical product line of \$6,391 offset, in part, by increases of (i) approximately \$2,312 in our contract manufacturing product sales primarily due to increased sales volumes to one of our major customers, Herbalife, of approximately \$2,449 and (ii) approximately \$447 net sales in our other nutraceutical product lines compared to the prior period.

**Cost of sales.** Cost of sales decreased by \$1.5 million to \$29.0 million for the fiscal year ended June 30, 2012, as compared to \$30.5 million for the fiscal year ended June 30, 2011. Cost of sales increased as a percentage of sales to 79.2% for the fiscal year ended June 30, 2012 as compared to 75.0% for the fiscal year ended June 30, 2011. The decrease in the cost of goods sold amount was primarily the result of decreased sales. The cost of sales as a percentage of sales increased as a result of a greater percentage of sales being derived from our contract manufacturing business which has a higher cost of goods sold percentage (approximately 85%), as compared to the proprietary branded nutraceutical product line (approximately 60%).

**Selling and Administrative Expenses.** Selling and administrative expenses were \$8.1 million for the fiscal year ended June 30, 2012, as compared to \$10.5 million for the fiscal year ended June 30, 2011, a decrease of \$2.4 million or 23%. As a percentage of sales, net, selling and administrative expenses were 22.2% for the fiscal year ended June 30, 2012 and 25.8% for the prior comparable period.

The net decrease in selling and administrative expenses of \$2.4 million is mainly due to decreases in advertising (\$1.6 million), stock compensation expenses (\$0.4 million), compensation and employee benefits (\$0.7 million), commissions (\$0.2 million) and travel and entertainment (\$0.2 million), offset by an increase in professional fees of \$0.8 million primarily as a result of the increased involvement of legal and other professionals in the refinancing of our defaulted Notes Payable and defaulted Original CD Note. (See Notes 7 and 8 to the financial statements included in the Annual Report on Form 10-K).

Our advertising and marketing costs decreased by approximately \$1.6 million in the fiscal year ended June 30, 2012 compared to the fiscal year ended June 30, 2011 primarily as a result of a decrease in in-store demonstrations (“demos”) of our products at one of our customer’s store locations. As a percentage of sales, our advertising and marketing costs represented 4.3% in the fiscal year ended June 30, 2012 compared to 7.6% in the fiscal year ended June 30, 2011. The decrease in marketing and advertising expenses is a direct result of the decreases in sales of approximately \$6.8 million in our branded proprietary nutraceutical products as well as a move away from performing in-store demos on our products and to instead, offering promotional discounts to consumers to increase our pull through rates.

Our stock compensation expense decreased by \$0.4 million primarily due to the significant decrease in the market value of our common stock at the measurement date of the stock option grants (the market value of our common stock is one of several factors used in determining the fair value of the stock compensation at the time of the award and ultimate expense to our consolidated financial statements) and due to no stock options being granted in the fiscal years ended June 30, 2012 and 2011.

Our compensation and employee benefits decreased by \$0.7 million as a result of decreasing our staff and changing the compensation plan of the new management team that was hired to assist us in changing over the products of AgroLabs and expanding its customer base from the club store distribution to the natural food and international markets (net savings of approximately \$0.2 million). Additionally, in the fiscal year ended June 30, 2011, we incurred severance costs of \$0.5 million with no such cost in the fiscal year ended June 30, 2012.

Commissions decreased by \$0.2 million as a direct result of the decline in net sales as well as commissioned customers converting to house accounts managed by our internal sales force as opposed to outside independent brokers.

Our travel and entertainment costs decreased by approximately \$0.2 million as a result of the termination of a monthly travel and entertainment allowance which was approximately \$17 or \$0.2 per annum in the fiscal year ended June 30, 2011. There was no such allowance in the fiscal year ended June 30, 2012.

**Other expense, net.** Other expense, net was approximately \$2.2 million for the fiscal year ended June 30, 2012 compared to \$1.9 million for the fiscal year ended June 30, 2011, and is composed of:

	Fiscal Year Ended	
	June 30,	
	2012	2011
	(dollars in thousands)	
Interest expense	\$ (1,109)	\$ (1,938)
Forbearance fees	(1,100)	-
Other income:		
Change in fair value of derivative instruments	9	2
Other income	4	42
Total other income	<u>13</u>	<u>44</u>
Other expense, net	<u>\$ (2,196)</u>	<u>\$ (1,894)</u>

The decrease in interest expense of approximately \$0.8 million is attributable to the lack of accretion resulting from the adoption of the accounting for derivative liabilities in connection with embedded derivatives in our Original CD Note and warrants issued in connection with our Notes Payable, from the maturity of the Notes Payable in February 2011 through their refinancing in June 2012.

In connection with our defaulted Notes Payable, we incurred \$1.1 million in forbearance fees paid to the Notes Payable Holders in the fiscal year ended June 30, 2012. (See Notes 7 and 8 to the financial statements included in the Annual Report on Form 10-K).

**Federal and state income tax, net.** For the fiscal year ended June 30, 2012 and 2011, we had a minimal amount of state tax expenses. 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.

**Net loss.** Our net loss for the fiscal year ended June 30, 2012 was \$2.7 million as compared to \$2.3 million for the fiscal year ended June 30, 2011. The increase in net loss of approximately \$0.4 million is primarily the result of the increase in other expense of \$0.3 million and an increase in the loss from operations of approximately \$0.1 million.

### ***Seasonality***

The nutraceutical business tends to be seasonal. We have found that in our first fiscal quarter ending on September 30<sup>th</sup> 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 31<sup>st</sup> of each year, orders for our products increase as the demand for our 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. 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 provided by or used in operating, investing and financing activities:

	For the fiscal year ended June 30,	
	2012	2011
	<i>(In thousands)</i>	
Net cash (used in) provided by operating activities	\$ (771)	\$ 392
Net cash used in investing activities	\$ (143)	\$ (269)
Net cash provided by (used in) financing activities	\$ 334	\$ (45)
Cash at end of year	\$ 145	\$ 725

At June 30, 2012, the Company's working capital deficit was approximately \$3.5 million, a decrease of \$7.2 million from a working capital deficit at June 30, 2011 of \$10.7 million. Our current assets decreased by approximately \$2.0 million and our current liabilities decreased by \$9.1 million from June 30, 2011 to June 30, 2012. The decrease in the working capital deficit was primarily the result of the repayment or refinancing of \$12.6 million of current debt as of June 30, 2011 into \$9.5 million of long term debentures and \$4.2 million of current debt as of June 30, 2012. Additionally, we decreased our accounts payable and accrued expenses by approximately \$0.7 million as of June 30, 2012 from the amounts owed as of June 30, 2011.

Net cash used in operating activities of \$0.8 million in the fiscal year ended June 30, 2012 includes a net loss of \$2.7 million. After excluding the effects of non-cash expenses, including depreciation and amortization, compensation expense for employee stock options and consultants, accretion of financial instruments and changes in the fair value of derivative liabilities, the adjusted cash used in operations before the effect of the changes in working capital components was approximately \$2.1 million. Cash in the amount of approximately \$1.4 million from our working capital assets and liabilities was provided by operating activities, and was the result of a decrease in inventory of \$2.1 million and a net increase in accounts payable and accrued expenses and other liabilities of approximately \$0.5 million, offset in part, by increases in accounts receivable of approximately \$0.6 million and increases in prepaid expenses, security deposits and other assets of \$0.6 million.

Net cash provided by operating activities of approximately \$0.4 million in the fiscal year ended June 30, 2011 includes a net loss of \$2.3 million. After excluding the effects of non-cash expenses, including, depreciation and amortization, compensation expense for employee stock options and consultants, accretion of financial instruments and changes in the fair value of derivative liabilities, the adjusted cash used in operations before the effect of the changes in our working capital components was \$0.4 million. Cash was provided from our working capital assets and liabilities in the amount of approximately \$0.9 million and was primarily the result of an increase in our accounts payable and accrued expenses of \$1.0 million and partly by a decrease in accounts receivable of approximately \$0.2 million. These increases were primarily offset by an increase in inventories of approximately \$0.4 million.

Cash used in investing activities was used for the purchase of fixed assets for approximately \$155, offset by a gain on the sale of machinery and equipment of \$12 in the fiscal year ended June 30, 2012, a net use of cash of \$143, compared to using approximately \$269 in the fiscal year ended June 30, 2011 for the purchase of machinery and equipment for approximately \$301, offset by a gain on the sale of machinery and equipment of \$32.

Cash provided by financing activities was \$334 in the fiscal year ended June 30, 2012, which included the repayment of the then \$7.8 million defaulted Notes Payable, offset by cash proceeds from issuance of new notes payable of \$5.5 million (\$1.7 million issued to CD Financial, a related party) and \$2.7 million from advances under our revolving credit facility. (See Notes 7 and 8 to the financial statements included in the Annual Report on Form 10-K). Cash used in financing activities was \$45 in the fiscal year ended June 30, 2011, which included a \$40 repayment of funds borrowed and repaid in the fiscal year ended June 30, 2011

under a short term promissory note entered into with CD Financial, a related party and the holder of our CD Convertible Note, and the repayment of \$45 under our capitalized lease obligations.

Our consolidated financial statements have been prepared assuming that we will continue as a going concern. However, we have incurred recurring operating losses for six consecutive years including an operating loss of \$506 and a net loss of \$2.7 million for the year ended June 30, 2012. Additionally, at June 30, 2011 and through the fourth quarter of our fiscal year ended June 30, 2012, our Notes Payable in the amount of \$7.8 million, which matured on November 15, 2009, were in default and our Original CD Note of \$4.5 million, which matured in February 2011, was also in default. These factors had raised substantial doubt as to our ability to continue as a going concern at June 30, 2011 and through the third quarter of our fiscal year ended June 30, 2012.

On June 27, 2012, our outstanding defaulted debt was refinanced and restructured. We refinanced our debt of \$12,605 in the aggregate to (i) a five-year senior credit facility in the amount of \$11,727, consisting of a \$3,727 term loan and a revolving credit facility of \$8,000 (\$2,677 outstanding as of June 30, 2012) that will both mature in June 2017 and (ii) the issuance of the CD Convertible Note in the aggregate amount of \$5,350 with a maturity date in July 2017 which replaced the Original CD Note. (See Notes 7 and 8 to the financial statements included in this Annual Report on Form 10-K). The refinanced debt provides for scheduled principal payments of \$44 per month in the fiscal year ending June 30, 2013 and substantially reduces our interest expense through lower interest rates. The Company believes that these steps should allow its management to focus on its core businesses with an expectation that the Company will return to profitability.

As of June 30, 2012, we had cash of \$145, funds available under our revolving credit facility of approximately \$1,400 and a working capital deficit of \$3,519. Our working capital deficit includes (i) \$2.7 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 and (ii) \$1.0 million in long term debt which is also classified as currently due as a result of a prepayment provision which requires the company to sell its iBio, Inc. common stock if the trading price per share falls below a certain level and use the proceeds to repay our term loan with PNC. (See Note 8 to the financial statements included in this Annual Report on Form 10-K). Furthermore, although we had a loss from operations of approximately \$0.5 million in the fiscal year ended June 30, 2012, we incurred approximately \$1.1 million in professional and consulting fees related to the default on the Notes Payable, our efforts to sell Agrolabs under the previous Notes Payable forbearance and other refinancing efforts. After taking into consideration interim results and current projections, management believes that operations, together with the revolving credit facility will support our working capital requirements for the fiscal year ending June 30, 2013.

Our total annual commitments at June 30, 2012 for long term non-cancelable leases of approximately \$593 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 \$600 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 \$300.

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 it has no obligation to indemnify Cedarburg as demanded. As of October 15, 2012, 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 fiscal ended June 30, 2012 and 2011 were approximately \$155 and \$301, respectively. The Company has budgeted approximately \$0.5 million for capital expenditures for fiscal 2013. The total amount is expected to be funded from cash provided from its operations or from lease financing.

### ***Off-Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements.

### ***Impact of Inflation***

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

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable to smaller reporting companies.

### **Item 8. Financial Statements and Supplementary Data**

For a list of financial statements filed as part of this Annual Report on Form 10-K, see the index to financial statements on page 31.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not Applicable

### **Item 9A. 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 (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 June 30, 2012, 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***

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2012 and have concluded that no change has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

*Management's Annual Report On Internal Control Over Financial Reporting*

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes, in accordance with generally accepted accounting principles. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of its internal control over financial reporting as of June 30, 2012 based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2012.

This Annual Report on Form 10-K does not include an attestation report of Friedman, LLP, the Company's independent registered public accounting firm, regarding internal control over financial reporting. Since the Company is neither a "larger accelerated filer" nor an "accelerated filer", as defined in SEC rules, the Company is exempt pursuant to Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act from the requirement that management's report in this Form 10-K be attested to by the Company's independent registered public accounting firm.

**Item 9B. Other Information**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance of the Registrant.**

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2012.

### **Item 11. Executive Compensation**

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2012.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2012.

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2012.

### **Item 14. Principal Accountant Fees and Services**

Incorporated by reference from the Company's Proxy Statement for Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended June 30, 2012.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) Exhibits and Index

- (1) A list of the financial statements filed as part of this Annual Report on Form 10-K is set forth in the index to consolidated financial statements on Page 31 and is incorporated herein by reference.
- (2) An index of exhibits incorporated by reference or filed with this Annual Report on Form 10-K is provided below.

<u>Number</u>	<u>Description</u>
3.1	Certificate of Incorporation of Integrated BioPharma, Inc., as amended (8)
3.2	By-Laws of Registrant (6)
4.1	Certificate of Designation of Series and Determination of Rights and Preferences of Series A Convertible Preferred Stock of Integrated BioPharma, Inc. dated June 25, 2003 (1)
4.2	Certificate of Designation of Series C and Determination of Rights and Preferences of Series C Convertible Preferred Stock of Integrated BioPharma, Inc. dated February 21, 2008 (7)
10.1	Lease Agreement, dated August 3, 1994, between the Company and Hillside 22 Realty Associates, L.L.C. (2)
10.2	Lease Agreement between the Company and Vitamin Realty Associates, dated January 10, 1997 (3)
10.3	Second Amendment of Lease, dated as of January 5, 2012, between Vitamin Realty Associates, L.L.C. and InB: Manhattan Drug Company, Inc. (11)
10.4	Lease Agreement, dated as of January 5, 2012, between Vitamin Realty Associates, L.L.C. and AgroLabs, Inc. (11)
10.5	Integrated Health Technologies, Inc. 2001 Stock Option Plan, as amended (10)
10.6	Separation and Distribution Agreement dated November 14, 2007, with our subsidiary INB:Biotechnologies (5)
10.7	Warrant to Purchase Common Stock of Integrated BioPharma, Inc. by and between Integrated BioPharma, Inc. and the note holders of the Amended and Restated First Amendment to Amended and Restated Securities Purchase Agreement and 8% Senior Secured Notes dated October 14, 2008 (9)
10.8	Registration Rights Agreement by and between Integrated BioPharma, Inc. and the each of the named Investors in such agreement dated October 14, 2008 (9)
10.9	Stock Purchase Agreement, dated as of March 17, 2009, by and among Cedarburg Pharmaceuticals, Inc., Purchaser, INB: Hauser Pharmaceutical Services, Inc., Company, INB: Paxis Pharmaceuticals, Inc., and Integrated BioPharma, Inc., Seller. (11)
10.10	Revolving Credit, Term Loan and Security Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association. (12)
10.11	Term Note, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association, in the original principal amount of \$3,727,000. (12)
10.12	Revolving Credit Note, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association, in the original principal amount of \$8,000,000. (12)
10.13	Continuing Limited Guaranty, dated as of June 27, 2012, made by Carl DeSantis, in favor of PNC Bank, National Association. (12)
10.14	Continuing Limited Guaranty, dated as of June 27, 2012, made by E. Gerald Kay, in favor of PNC Bank, National Association. (12)

- 10.15 Stock Pledge Agreement, dated as of June 27, 2012, between Integrated BioPharma, Inc. and PNC Bank, National Association. (12)
- 10.16 Intercreditor and Subordination Agreement, dated as of June 27, 2012, between CD Financial, LLC and PNC Bank, National Association, and acknowledged by Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. (12)
- 10.17 Mortgage and Security Agreement, dated as of June 27, 2012, by IHT Properties, Inc. in favor of PNC Bank, National Association. (12)
- 10.18 Environmental Indemnity Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and PNC Bank, National Association Amended and Restated Securities Purchase Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., and CD Financial, LLC. (12)
- 10.19 Amended and Restated Securities Purchase Agreement, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., and CD Financial, LLC. (12)
- 10.20 Amended and Restated Subsidiary Guarantee, dated as of June 27, 2012, by and among Integrated BioPharma, Inc., InB:Manhattan Drug Company, Inc., Agrolabs, Inc., IHT Health Products, Inc., IHT Properties Corp. and Vitamin Factory, Inc. and CD Financial, LLC. (12)
- 10.21 Amended and Restated Convertible Secured Promissory Note, dated as of June 27, 2012, by Integrated BioPharma, Inc. and payable to the order of CD Financial, LLC, in the original principal amount of \$5,350,000. (12)
- 10.22 Promissory Note, dated as of June 27, 2012, by Integrated BioPharma, Inc. and payable to the order of CD Financial, LLC, in the original principal amount of \$1,714,000. (12)
- 10.23 Promissory Note, dated as of June 27, 2012, by InB:Manhattan Drug Company and Integrated BioPharma, Inc., and payable to the order of Vitamin Realty Associates, LLC, in the original principal amount of \$685,985.61. (12)
- 14 Code of Ethics (4)
- 21 Subsidiaries of the Registrant (13)
- 23.1 Consent of Independent Registered Public Accounting Firm (13)
- 31.1 Certification of Periodic Report by Chief Executive Officer Pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (13)
- 31.2 Certification of Periodic Report by Chief Financial Officer Pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (13)
- 32.1 Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (13)
- 32.2 Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (13)
- 101 The following financial information from Integrated BioPharma, Inc.'s Annual Report on Form 10-K for the fiscal year ended June 30, 2012, formatted in XBRL (extensible Business Reporting Language): (i) Consolidated Statements of Operations for the fiscal years ended June 30, 2012 and 2011, (ii) Consolidated Balance Sheets as of June 30, 2012 and 2011, (iii) Consolidated Statements of Changes in Stockholders' Deficiency for the fiscal years ended June 30, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2012 and 2011, and (v) the Notes to Consolidated Statements. (13)

- 
- (1) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003, filed with the SEC on September 29, 2003.
- (2) Incorporated herein by reference to Amendment No. 1 to the Company's Registration Statement on Form SB-2, Registration No. 333-5240-NY.
- (3) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB for the

- fiscal year ended June 30, 1997, filed with the SEC on September 29, 1997.
- (4) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2004, filed with the SEC on September 28, 2004, as amended on November 10, 2004.
  - (5) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on November 19, 2007.
  - (6) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on February 14, 2008.
  - (7) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on February 22, 2008.
  - (8) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on May 12, 2008 and to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2002 filed with the SEC on September 29, 2003.
  - (9) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on October 20, 2008.
  - (10) Incorporated herein by reference to the Company's Definitive Proxy Statement on Form DEF 14A, as revised, filed with the SEC on October 28, 2009.
  - (11) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed with the SEC on May 21, 2012.
  - (12) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the SEC on June 29, 2012.
  - (13) Filed herewith.

**Item 8: Financial Statements**

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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Integrated BioPharma, Inc.

We have audited the accompanying consolidated balance sheets of Integrated BioPharma, Inc. and Subsidiaries (the "Company"), as of June 30, 2012 and June 30, 2011 and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for the fiscal years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated BioPharma, Inc. and Subsidiaries as of June 30, 2012 and June 30, 2011, and the results of their operations and their cash flows for each of the two fiscal years in the period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

East Hanover, New Jersey  
October 15, 2012

**INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE FISCAL YEARS ENDED JUNE 30,**  
**(in thousands, except share and per share amounts)**

	<u>2012</u>	<u>2011</u>
Sales, net	\$ 36,604	\$ 40,665
Cost of sales	<u>28,997</u>	<u>30,503</u>
Gross profit	<u>7,607</u>	<u>10,162</u>
Selling and administrative expenses	<u>8,113</u>	<u>10,524</u>
Operating loss	<u>(506)</u>	<u>(362)</u>
Other expense, net:		
Interest expense	(1,109)	(1,938)
Forbearance fees	(1,100)	-
Other income:		
Change in fair value of derivative instruments	9	2
Other income	3	37
Interest and investment income	<u>1</u>	<u>5</u>
Total other income	<u>13</u>	<u>44</u>
Total other expense, net	<u>(2,196)</u>	<u>(1,894)</u>
Loss before income taxes	(2,702)	(2,256)
Income tax expense, net	<u>11</u>	<u>25</u>
Net Loss	(2,713)	(2,281)
Basic and diluted net loss per common share	<u>\$ (0.13)</u>	<u>\$ (0.11)</u>
Weighted average common shares outstanding		
Basic and diluted	<u>21,011,522</u>	<u>20,780,406</u>

See accompanying notes to consolidated financial statements.

**INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF JUNE 30,**  
**(in thousands, except share and per share amounts)**

	2012	2011
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 145	\$ 725
Accounts receivable, net	2,035	1,405
Inventories, net	5,290	7,396
Investment in iBio, Inc.	823	823
Other current assets	391	286
<b>Total current assets</b>	8,684	10,635
Intangible assets, net	1,154	1,294
Property and equipment, net	1,449	1,667
Security deposits and other assets	590	54
<b>Total assets</b>	\$ 11,877	\$ 13,650
<b>Liabilities and stockholders' deficiency:</b>		
<b>Current liabilities:</b>		
Notes payable	\$ -	\$ 7,805
Subordinated convertible note payable - CD Financial LLC	-	4,500
Advances under revolving credit facility	2,677	-
Accounts payable (includes \$72 and \$738 due to a related party for 2012 and 2011)	6,481	7,547
Accrued expenses and other current liabilities	1,549	1,177
Note Payable, CD Financial LLC	-	300
Current portion of long term debt	1,496	-
<b>Total current liabilities</b>	12,203	21,329
Long term debt	4,698	-
Subordinated convertible note, net - CD Financial, LLC	4,796	-
Derivative liabilities	563	16
<b>Total liabilities</b>	22,260	21,345
<b>Commitments and contingencies</b>		
<b>Stockholders' deficiency:</b>		
Common Stock, par value \$0.002 per share; shares authorized 50,000,000; shares issued 2012 and 2011 were 21,115,074 and 20,915,074; and shares outstanding 2012 and 2011 were 21,080,174 and 20,880,174	42	42
Additional paid-in-capital	44,568	44,543
Accumulated deficit	(54,894)	(52,181)
Less: Treasury stock, at cost, 34,900 shares at 2012 and 2011	(99)	(99)
<b>Total stockholders' deficiency</b>	(10,383)	(7,695)
<b>Total liabilities and stockholders' deficiency</b>	\$ 11,877	\$ 13,650

See accompanying notes to consolidated financial statements.

**INTEGRATED BIO PHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY**  
**FOR THE FISCAL YEARS ENDED JUNE 30,**  
**(in thousands, except shares)**

	<u>Common Stock</u>		Additional <u>Paid-in-Capital</u>	Accumulated <u>Deficit</u>	<u>Treasury Stock</u>		Total Stockholders' <u>(Deficiency)</u>
	<u>Shares</u>	<u>Par Value</u>			<u>Shares</u>	<u>Cost</u>	
<b>Balance, July 1, 2010</b>	20,604,242	\$ 41	\$ 44,262	\$ (49,900)	34,900	\$ (99)	\$ (5,696)
Restricted stock award vested	110,832	-	-	-	-	-	-
Issuance of Common Stock	200,000	1	26	-	-	-	27
Stock based compensation	-	-	255	-	-	-	255
Net loss	-	-	-	(2,281)	-	-	(2,281)
<b>Balance, June 30, 2011</b>	<u>20,915,074</u>	<u>42</u>	<u>44,543</u>	<u>(52,181)</u>	<u>34,900</u>	<u>(99)</u>	<u>(7,695)</u>
Issuance of Common Stock	200,000	-	14	-	-	-	14
Stock based compensation	-	-	11	-	-	-	11
Net loss	-	-	-	(2,713)	-	-	(2,713)
<b>Balance, June 30, 2012</b>	<u>21,115,074</u>	<u>\$ 42</u>	<u>\$ 44,568</u>	<u>\$ (54,894)</u>	<u>34,900</u>	<u>\$ (99)</u>	<u>\$ (10,383)</u>

See accompanying notes to consolidated financial statements.

**INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED JUNE 30,**  
**(in thousands)**

	2012	2011
Cash flows from operating activities:		
Net loss	\$ (2,713)	\$ (2,281)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	500	491
Non cash charge of professional fees incurred in connection with Convertible Note Payable - CD Financial, LLC	53	-
Change in fair value of derivative instruments	(9)	(2)
Accretion of financing instruments	13	905
Allowance for doubtful accounts	(3)	(45)
Gain on sale of property and equipment	1	(31)
Issuance of common stock for consulting services	-	197
Stock-based compensation	10	255
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(627)	269
Inventories	2,106	(408)
Prepaid expenses and other current assets	(641)	52
(Decrease) increase in:		
Accounts payable	(352)	1,106
Accrued expenses and other current liabilities	891	(116)
<b>Net cash (used in) provided by operating activities</b>	<b>(771)</b>	<b>392</b>
Cash flows from investing activities:		
Purchase of property and equipment	(155)	(301)
Proceeds from sale of property and equipment	12	32
<b>Net cash used in investing activities</b>	<b>(143)</b>	<b>(269)</b>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	3,768	40
Advances under revolving credit facility	2,679	-
Repayments of advances under revolving credit facility	(2)	-
Repayments under term note payables	(7,805)	(40)
Proceeds from issuance of notes payable - CD Financial, LLC	1,714	-
Repayments under capitalized lease obligations	(20)	(45)
<b>Net cash provided by (used in) financing activities</b>	<b>334</b>	<b>(45)</b>
Net (decrease) increase in cash	(580)	78
Cash at beginning of fiscal year	725	647
Cash at end of fiscal year	\$ 145	\$ 725

See accompanying notes to consolidated financial statements.

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***Note 1. Business***

Integrated BioPharma, Inc., a Delaware corporation (together with its subsidiaries, 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 nutraceutical business includes: InB:Manhattan Drug Company, Inc. (“MDC”), which manufactures vitamins and nutritional supplements for sale to distributors, multilevel marketers and specialized health-care providers; 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, Naturally Pomegranate, Pomegranate with ACAI and Resveratrol, Coconut Water, Naturally Aloe, Aloe Pure, Peaceful Sleep, Green Envy, ACAI Extra, ACAI Immune, ACAI Cleanse, and other products which are being introduced into the market (these are referred to as our branded proprietary nutraceutical business and/or products); and The Vitamin Factory (the “Vitamin Factory”), which sells private label MDC products, as well as our AgroLabs products, through the Internet.

The Company also distributes fine natural chemicals through its wholly-owned subsidiary IHT Health Products, Inc. (“IHT”) and is a distributor of certain raw materials for DSM Nutritional Products, Inc.

***Liquidity***

The Company’s consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, the Company has incurred recurring operating losses for six consecutive years including an operating loss of \$506 and a net loss of \$2.7 million for the year ended June 30, 2012. Additionally, at June 30, 2011 and through the fourth quarter of the fiscal year ended June 30, 2012, the Notes Payable in the amount of \$7.8 million, which matured on November 15, 2009, were in default and our Original CD Note of \$4.5 million, which matured in February 2011, was also in default. (See Note 7. Notes Payable and Subordinated Convertible Note Payable – CD Financial, LLC). These factors raised substantial doubt as to the Company’s ability to continue as a going concern at June 30, 2011 and through the third quarter of the fiscal year ended June 30, 2012.

On June 27, 2012, the Company’s outstanding defaulted debt was refinanced and restructured. The Company refinanced its debt of \$12,605 in the aggregate to (i) a five-year senior credit facility in the amount of \$11,727 consisting of \$3,677 term loan, a revolving credit facility of \$8,000 (\$2,696 outstanding as of June 30, 2012) that will mature in June 2017 and (ii) the issuance of the CD Convertible Note in the aggregate amount of \$5,350 with a maturity date in July 2017 which replaced the Original CD Note and other promissory notes and other amounts due to CD Financial LLC (“CD Financial”). (See Note 7. Notes Payable and Subordinated Convertible Note Payable – CD Financial, LLC and Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt). The refinanced debt provides for scheduled principal payments of \$44 per month in the fiscal year ending June 30, 2013 and substantially reduces its interest expense through lower interest rates. The Company believes that these steps should allow its management to focus on its core businesses with an expectation that the Company will return to profitability.

As of June 30, 2012, we had cash of \$145, funds available under the Company’s revolving credit facility of approximately \$1,400 and a working capital deficit of \$3,519. The Company’s working capital deficit includes (i) \$2.7 million outstanding under the Company’s revolving line of credit which is not due until July

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2017 but is classified as currently due as a result of a subjective acceleration clause that could cause the advances to become currently due and (ii) \$1.0 million in long term debt which is also classified as current due to a prepayment provision which requires the company to sell its investment in iBio, Inc. common stock if the trading price per share falls below a certain level and use the proceeds to repay the term loan. Furthermore, although the Company had a loss from operations of approximately \$0.5 million in the fiscal year ended June 30, 2012, the company incurred approximately \$1.1 million in professional and consulting fees related to the default on the Notes Payable, its efforts to sell Agrolabs under the previous Notes Payable forbearance arrangement and other refinancing efforts. After taking into consideration interim results and current projections, management believes that operations, together with the revolving credit facility, will support the Company's working capital requirements for the fiscal year ending June 30, 2013.

***Note 2. Summary of Significant Accounting Policies***

***Principles of Consolidation.*** The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation.

***Use of 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:

- sales returns and allowances;
- trade marketing and merchandising;
- allowance for doubtful accounts;
- inventory valuation;
- valuation and recoverability of long-lived and intangible assets;
- income taxes and valuation allowance on deferred income taxes, and;
- accruals for, and the probability of, the outcome of any 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.

***Reclassifications.*** Certain reclassifications, including reflecting AgroLabs as part of our ongoing operations, have been made to the amounts reported for the prior year to conform to the current year presentation. In the quarter ended March 31, 2012, in connection with our continued negotiations to refinance the defaulted debt, the Company terminated its plans to sell the assets of AgroLabs in order to use the assets as additional collateral for the financing provided by PNC. (See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt). Accordingly, the consolidated financial statements and the associated results of operations, financial position and cash flows have been reclassified to reflect AgroLabs as part of our ongoing operations for all periods presented.

***Derivative Liabilities.*** The Company generally does not use derivative financial instruments to hedge exposures to cash flow or market risks. However, certain other financial instruments, such as warrants and embedded conversion features on the subordinated convertible debt, are classified as derivative liabilities due to protection provisions within the agreements. Such financial instruments are initially recorded at fair value using the Black Scholes model and subsequently adjusted to fair value at the close of each reporting period.

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The Company accounts for derivative instruments and debt instruments in accordance with the interpretative guidance of ASC 815 and associated pronouncements related to the classification and measurement of warrants and instruments with conversion features.

**Revenue Recognition.** For product sales, the Company recognizes revenue when the product's title and risk of loss transfers to the customer. The Company believes this revenue recognizing practice is appropriate because the Company's sales policies meet the following four criteria: (i) persuasive evidence that an arrangement exists; (ii) delivery has occurred; (iii) the seller's price to the buyer is fixed and determinable; and (iv) collectability is reasonably assured. The Company's sales policy is to require customers to provide purchase orders with the agreed upon selling prices and shipping terms. The Company evaluates the credit risk of each customer and establishes an allowance of doubtful accounts for any credit risk. Sales returns and allowances are estimated upon shipment, based on historical experience.

**Shipping and Handling Costs.** Shipping and handling costs were approximately \$552 and \$667 for the fiscal years ended June 30, 2012 and 2011, respectively, and are included in cost of sales in the accompanying Consolidated Statements of Operations.

**Trade Marketing and Merchandising.** In order to support the Company's propriety nutraceutical product lines, various promotional activities are conducted through the retail trade, distributors or directly with consumers, including in-store display and product placement programs, feature price discounts, coupons, and other similar activities. The Company regularly reviews and revises, when it deems necessary, estimates of costs to the Company for these promotional programs based on estimates of what will be redeemed by the retail trade, distributors, or consumers. These estimates are made using various techniques, including historical data on performance of similar promotional programs. Differences between estimated expense and actual performance are generally not material and are recognized as a change in management's estimate in a subsequent period.

**Advertising.** Advertising costs are expensed as incurred. Advertising expense was approximately \$1,581 and \$3,105 for the fiscal years ended June 30, 2012 and 2011, respectively.

**Stock-Based Compensation.** The Company has two stock-based compensation plans that have outstanding options issued in accordance with such plans. The Company periodically grants stock options to employees and directors in accordance with the provisions of its stock option plans, with the exercise price of the stock options being set at the closing market price of the common stock on the date of grant. Stock based compensation expense is recognized based on the estimated fair value, utilizing a Black-Scholes option pricing model, of the instrument on the date of grant over the requisite vesting period, which is generally 3 years.

**Income Taxes.** The Company accounts for income taxes using the assets and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized in income or expense in the period that the change is effective. Tax benefits are recognized when it is probable that the deduction will be sustained. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

The Company files a U.S. federal income tax return as well as returns for various states. The Company's income taxes have not been examined by any tax authorities for the periods subject to review by such taxing authorities. Uncertain tax positions taken on our tax returns are accounted for as liabilities for unrecognized

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tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations. There were no liabilities recorded for uncertain tax positions at June 30, 2012 or 2011.

**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 preferred stock, subject to anti-dilution limitations using the treasury stock method. All such potentially dilutive instruments were anti-dilutive as of June 30, 2012 and 2011.

**Fair Value of Financial Instruments.** Generally accepted accounting principles require disclosing the fair value of financial instruments to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

In assessing the fair value of financial instruments, the Company uses a variety of methods and assumptions, which are based on estimates of market conditions and risks existing at the time. For certain instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses, it was estimated that the carrying amount approximated fair value because of the short maturities of these instruments. All debt is based on current rates at which the Company could borrow funds with similar remaining maturities and approximates fair value.

**Accounts Receivable and Allowance for Doubtful Accounts.** In the normal course of business, the Company extends credit to customers. Accounts receivable, less the allowance for doubtful accounts, reflect the net realizable value of receivables, and approximate fair value. The Company believes there is no concentration of credit risk with any single customer whose failure or nonperformance would materially affect the Company's results other than as discussed in Note 11(c) – Significant Risks and Uncertainties – Major Customers. On a regular basis, the Company evaluates its accounts receivables and establishes an allowance for doubtful accounts based on a combination of specific customer circumstances, credit conditions, and historical write-offs and collections. The allowance for doubtful accounts as of June 30, 2012 and 2011 was \$111 and \$115, respectively. Accounts receivable are charged off against the allowance after management determines that the potential for recovery is remote.

**Inventories.** Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Allowances for obsolete and overstock inventories are estimated based on “expiration dating” of inventory and projection of sales.

**Property and Equipment.** Property and equipment are recorded at cost and are depreciated using the straight line method over the following estimated useful lives:

Building	15 Years
Leasehold Improvements	Shorter of estimated useful life or term of lease
Machinery and Equipment	7 Years
Transportation Equipment	5 Years

**Impairment of Long-Lived Assets.** Long-lived assets are reviewed for impairment when circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows estimated by the Company to be generated by such assets. If such assets are considered to be impaired, the impairment

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to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of by sale are recorded as held for sale at the lower of carrying value or estimated net realizable value. In the quarter ended March 31, 2012, in connection with our refinancing of the defaulted debt, the Company terminated its plans to sell the assets of AgroLabs in order to use the assets as additional collateral for the financing provided by PNC. (See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt). No impairment losses were identified or recorded in the fiscal years ended June 30, 2012 and 2011.

Other intangible assets consist of trade names, license fees, and unpatented technology. Amortization is being recorded on the straight-line basis over periods ranging from 10 years to 20 years based on contractual or estimated lives. No impairment losses were identified or recorded on intangible assets in the fiscal years ended June 30, 2012 and 2011.

***Investment in iBio, Inc.*** The Company accounts for its investment in iBio, Inc. (“iBio”) common stock on the cost basis as it 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. There was no impairment charge recorded in the fiscal years ended June 30, 2012 and 2011. The market value of the iBio Stock as of June 30, 2012 was approximately \$1.0 million. Pursuant to the Loan Agreement, PNC may 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 at such time. (See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).

***Recent Accounting Pronouncements.***

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard). The revised standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The Company is currently evaluating the effect that this guidance will have on its consolidated financial position, results of operations and cash flows.

In September 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-08, Intangibles—Goodwill and Other (ASC Topic 350): Testing Goodwill for Impairment (“ASU 2011-8”). ASU 2011-8 modifies the impairment test for goodwill and indefinite lived intangibles so that the fair value of a reporting unit is no longer required to be calculated unless the Company believes, based on qualitative factors, that it is more likely than not that the reporting unit's or indefinite lived intangible asset's fair value is less than the carrying value. ASU 2011-8 is effective for fiscal years that begin after December 15, 2011, with early adoption allowed. The Company intends to adopt ASU 2011-8 effective July 1, 2012, which is not expected to have a material effect on the Company's consolidated financial statements.

On June 16, 2011 the FASB issued ASU No. 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income (ASU 2011-05). This update amends ASC Topic 220, Comprehensive Income to provide that total comprehensive income will be reported in one continuous statement or two separate but consecutive statements of financial performance. Presentation of total comprehensive income in the statement of stockholders' equity or the footnotes will no longer be allowed. The calculation of net income and basic and diluted net income per share will not be affected. ASU 2011-005 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, which means that it will be effective for our fiscal year beginning July 1, 2012. Retrospective adoption is required and early adoption is

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permitted. We do not believe that adoption of ASU 2011-05 will have a significant impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-04, Fair Value Measurement (Topic 820). This ASU is intended to create consistency between U.S. GAAP and International Financial Reporting Standards on the definition of fair value and on the guidance on how to measure fair value and on what to disclose about fair value measurements. This ASU will be effective for financial statements issued for fiscal periods beginning after December 15, 2011, with early adoption prohibited for public entities. The Company is currently evaluating the impact ASU 2011-04 will have on its consolidated financial statements.

***Note 3. Supplemental Cash Flow Information***

	Year Ended June 30,	
	2012	2011
Supplemental disclosures of cash flow information:		
Cash paid during the periods for:		
Interest	\$ 1,387	\$ 1,047
Income taxes	\$ 17	\$ 22
Supplemental disclosures of non-cash transactions:		
Non cash/accretion on financing instruments:		
Common Stock Issued - Interest expense on Convertible Note Payable	\$ 12	\$ 27
Discount on Convertible Note Payable	-	22
Interest expense on embedded derivative feature of Convertible Note Payable	1	856
Total non cash interest/accretion on financing instruments	\$ 13	\$ 905
Conversion of amounts payable to related parties to Notes Payable	\$ 714	\$ -
Debt restructuring of amounts due CD Financial, LLC	\$ 5,350	\$ -

***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:

	June 30,	
	2012	2011
Raw materials	\$ 2,502	\$ 2,893
Work-in-process	1,344	1,740
Finished goods	1,444	2,763
Total	\$ 5,290	\$ 7,396

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***Note 5. Intangible Assets, net***

Intangible assets consist of trade names, license fees, and unpatented technology. The carrying amount of other intangible assets, net is as follows as of:

	June 30, 2012			June 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names and patents	\$ 1,525	\$ 663	\$ 862	\$ 1,525	\$ 584	\$ 941
Unpatented technology	547	420	127	547	380	167
License agreement	347	182	165	347	161	186
Total	\$ 2,419	\$ 1,265	\$ 1,154	\$ 2,419	\$ 1,125	\$ 1,294

Amortization expense recorded on intangible assets for fiscal years ended June 30, 2012 and 2011 was \$140 and \$138, respectively. Amortization expense is recorded on the straight-line method over periods ranging from 2 years to 20 years based on contractual or estimated lives and is included in selling and administrative expenses.

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

Year ending June 30,	Amortization Expense
2013	\$ 137
2014	137
2015	137
2016	104
2017	97
Thereafter	542
<b>Total</b>	<b>\$ 1,154</b>

***Note 6. Property and Equipment***

Property and equipment consists of the following:

	June 30,	
	2012	2011
Land and building	\$ 1,250	\$ 1,250
Leasehold improvements	1,132	1,122
Machinery and equipment	5,017	4,939
Transportation equipment	59	68
	7,458	7,379
Less: Accumulated depreciation and amortization	(6,009)	(5,712)
Total	\$ 1,449	\$ 1,667

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Depreciation and amortization expense was \$359 and \$354 for the fiscal years ended June 30, 2012 and 2011, respectively. In the fiscal year ended June 30, 2012, the Company disposed of property and equipment with an original cost of \$76 for net proceeds of \$12. For the fiscal year ended June 30, 2011, the Company disposed of fully depreciated machinery and equipment with an original cost of \$136 for net proceeds of \$32.

***Note 7. Notes Payable and Subordinated Convertible Note Payable – CD Financial, LLC***

On February 21, 2008, the Company entered into two Securities Purchase Agreements (the "SPAs") relating to a private placement of securities with two investors, one of whom is an affiliate of Carl DeSantis, a director of the Company and a major shareholder, which resulted in gross proceeds, in the aggregate, of \$17,337 to the Company. The private placement involved the sale of (i) 6,000 shares of newly designated Series C Redeemable Convertible Preferred Stock (the "Series C Preferred Stock") with a stated value of \$1,000 per share (the Series C Preferred Stock were converted into shares of the Company's Common Stock in July and August 2008), (ii) \$4,500 in principal amount of 9.5% Subordinated Convertible Note Payable (the "Original CD Note"), (iii) \$7,000 in principal amount of 8.0% Notes Payable (the "Notes Payable") and (iv) 200,000 shares of the Company's common stock. The Notes Payable and the Original CD Note were secured by a pledge of substantially all of the Company's assets. The Notes Payable were paid in full and the Original CD Note was refinanced on June 27, 2012. See Note 8(a) and (b).

On November 24, 2009, MDC, a wholly owned subsidiary of the Company, entered into a \$300 promissory note (the "CD MDC Note") with CD Financial, a related party. The CD MDC Note matured on November 24, 2010 and bore interest at the rate of 5%, which interest was payable quarterly. Interest was accrued monthly and was payable upon maturity. The CD Note was refinanced on June 27, 2012. See Note 8(b).

On July 29, 2010, MDC, a wholly owned subsidiary of the Company, entered into a second promissory note in the amount of \$40 (the "CD MDC \$40 Note") with CD Financial. The CD MDC \$40 Note matured on October 29, 2010 and bore interest at the rate of 5%. Interest was accrued monthly and was paid on maturity. MDC repaid the CD MDC \$40 Note on October 29, 2010.

The following table presents the stated value/principal of each of the securities issued in connection with the debt outstanding as of June 30, 2011:

	Amended Notes Payable	Convertible Note Payable	Notes Payable	Derivative Liabilities
Stated Value / Principal	\$ 7,805	\$ 4,500	\$ 300	\$ 78
Discount Applied	(805)	(98)	-	-
Derivative liabilities	(186)	(2,757)	-	-
	<u>6,814</u>	<u>1,645</u>	<u>300</u>	<u>78</u>
Plus: Accretion of Discount	805	98	-	-
Accretion of embedded derivative liabilities	186	2,757	-	-
Change in fair value	-	-	-	(62)
<b>Total</b>	<u>\$ 7,805</u>	<u>\$ 4,500</u>	<u>\$ 300</u>	<u>\$ 16</u>

(a) In connection with a SPA, CD Financial provided gross proceeds of \$7,500, exclusive of a \$163 discount to be repaid by the Company at a future date (included in accrued expenses as of June 30, 2011 and 2010 in the accompanying Consolidated Balance Sheet), in exchange for 3,000 shares of

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Series C Preferred Stock, with a stated value of \$1,000 per share (the Series C Preferred Stock were converted into shares of the Company's Common Stock in August 2008), and \$4,500 in principal amount of Original CD Note. The Company allocated the proceeds and the discount based on the relative fair value of the Original CD Note and the Series C Preferred Stock. The Company amortized to interest expense the discount applied to the Original CD Note over the term of the note, and charged to Additional Paid in Capital the discount applied to the Series C Preferred Stock.

The Company used the following assumptions to calculate the fair value of the embedded derivative liability associated with the price protection provision on the conversion feature (assuming that 2,250,000 shares of common stock are converted) using the Black-Scholes option pricing model:

	June 30, 2011	Issuance Date
Risk Free Interest Rate	0.01%	2.23%
Volatility	131.90%	73.00%
Term	0.00 years	3 years
Dividend Rate	0.00%	0.00%
Closing Price of Common Stock	\$ 0.10	\$ 2.93

The Original CD Note bore interest at an annual rate of 9.5% and matured on February 21, 2011. On June 27, 2012, the Company refinanced the Original CD Note, see Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt. The Original CD Note was convertible, at any time and at the holder's option, into shares of our common stock based on a conversion price as set out in the Original CD Note. The conversion price was a formula based on the conversion price being the greater of (i) 90% of the average Volume Weighted Average Price market price of our common stock for 20 trading days immediately preceding the conversion date and (ii) \$2.00, subject to adjustment in the event of a stock dividend, stock split or combination, reclassification or similar event and upon certain issuances below the conversion price. The derivative liability associated with the price protection provision had no value as of June 30, 2011, therefore, there was no loss to be recognized in connection with the troubled debt restructuring of the Original CD Note. (See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).

Included in Interest Expense in the accompanying Consolidated Statement of Operations, is the following accretion costs resulted from the original stock issuance allocation and the derivative liability associated with the Original CD Note:

	Year Ended June 30, 2011
Discount	\$ 21
Derivative liability discount accretion	837
Total accretion to interest expense	<u>\$ 858</u>

Also, in accordance with the Original CD Note, the Company was required to issue and deliver to CD Financial, for no additional consideration, 50,000 shares of common stock, on a quarterly basis in arrears, commencing with the three-month anniversary of the issuance date, until the Original CD Note was repaid in full, after which the Company's obligations to issue shares of common stock would no longer be applicable. Accordingly, in each of the fiscal years ended June 30, 2012 and

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2011, the Company issued 200,000 shares to CD Financial. Pursuant to the terms of the CD Convertible Note, the Company's obligation to issue these shares ceased effective May 21, 2012. (See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).

(b) On February 21, 2008, in connection with a SPA, Imperium Master Fund, Ltd ("Imperium") provided gross proceeds of \$9,837, including a discount of \$163, in exchange for 3,000 shares of Series C Preferred Stock, with a stated value of \$1,000 per share (the Series C Preferred Stock were converted into shares of the Company's Common Stock in July and August 2008), \$7,000 in principal amount of 8.0% Notes Payable and 200,000 shares of the Company's common stock. The Notes Payable originally matured on February 21, 2009. The Company allocated the proceeds and the discount based on the relative fair value of the Notes Payable, the Series C Preferred Stock and the Company's common stock. The Company amortized, to interest expense, the discount applied to the Notes Payable over the term of the notes and charged to Additional Paid in Capital the discounts applied to the Series C Preferred Stock and the common stock.

On October 14, 2008, the Company and the holders of the Notes Payable (the "Note Payable Holders") amended their SPA to extend the maturity from February 21, 2009 to November 15, 2009 and the Note Payable Holders agreed to forgo the 200,000 shares of common stock. In consideration for extending the maturity of the Notes Payable, (i) a 11.5% premium was granted on the principal, thus aggregating a principal balance due of \$7,805 and certain other amounts payable under the Notes Payable, if any, (ii) certain new covenants were applicable to the Company effective October 14, 2009, (iii) the Company issued warrants to purchase 500,000 shares of the Company's Common Stock, with a five year term at an exercise price of \$0.80 per share, subject to certain price protection provisions and (iv) the Company agreed to register the resale of the shares of the Company's Common Stock for which the warrants are exercisable. On June 27, 2012, the Company repaid in full all amounts owed to the Note Payable Holders. See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt.

The Notes Payable in the amount of \$7,000 bore interest at a rate of 8.0% (\$7,805 as of October 1, 2011) and matured on November 15, 2009. The Company accreted the premium of \$805 over the term of the amendment, using the effective interest method. As of June 30, 2012 and 2011, the related embedded derivative liability with respect to the amended Notes Payable had estimated fair values of \$7 and \$16, respectively.

In the fiscal year ended June 30, 2012, the Company incurred forbearance fees aggregating \$1.1 million relating to the Notes Payable, \$1.0 million of which was pursuant to the Forbearance Agreement, dated as of October 4, 2011, entered into between the Company and the collateral agent for the Note Payable Holders (the "Forbearance Agreement") which extended, among other things, the due date of the Notes Payable until March 31, 2012. Several extensions of the Forbearance Agreement were granted from December 31, 2011 through February 8, 2012; however, on February 8, 2012, the forbearance period under the Forbearance Agreement expired. On June 13, 2012, the Company incurred and paid an additional \$0.1 million in forbearance fees to the collateral agent for the Note Payable Holders in consideration of their forbearance until the closing of the senior credit facility. See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt.

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The Company used the following assumptions to calculate the fair value of the derivative liability relating to the warrants issued on October 14, 2008 using the Black-Scholes option pricing model:

	June 30,		Issuance
	2012	2011	Date
Risk Free Interest Rate	0.21%	0.45%	3.01%
Volatility	144.10%	131.90%	85.00%
Term	1.08 years	2.08 years	5 years
Dividend Rate	0.00%	0.00%	0.00%
Closing Price of Common Stock	\$ 0.09	\$ 0.10	\$ 0.54

***Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt***

As of June 30, 2012, the Company had the following debt outstanding:

	As of June 30, 2012		
	Principal Amount	Interest Rate	Maturity Date
Revolving advances under Senior Credit			
Facility with PNC Bank, National Association	\$ 2,677	3.25%	6/27/2017
Installment Note with PNC Bank	3,727	3.75%	6/27/2017
Promissory Note with CD Financial, LLC	1,714	6.00%	7/7/2017
Promissory Note with Vitamin Realty, LLC	686	4.00%	7/7/2017
Promissory Note with E. Gerald Kay	27	4.00%	7/7/2017
Promissory Note with Acura Financial Services	40	1.90%	4/15/2017
Total outstanding debt	8,871		
Less: Revolving Advances	(2,677)		
Current portion of long term debt	(1,496)		
Long term debt	<u>\$ 4,698</u>		
Convertible Note payable - CD Financial, LLC	\$ 5,350		
Discount for embedded derivative	(554)		
Convertible Note payable, net - CD Financial, LLC	<u>\$ 4,796</u>		

**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

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\$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 June 30, 2012). The Term Loan bears interest at PNC's Base Rate or the Eurodollar Rate, at Borrowers' option, plus 3.25% (3.75% as of June 30, 2012). 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").

On June 27, 2012, the Company borrowed an initial Revolving Advance of approximately \$2.7 million, and the proceeds of this initial Revolving Advance, combined with the proceeds of the Term Loan and the CD Notes (as defined below) provided aggregate cash of \$8.1 million (the "Refinancing Proceeds"). The Refinancing Proceeds together with the Company's cash provided from its operating activities were used to (i) repay in full the Notes Payable, (ii) to pay to Imperium, in its capacity as collateral agent for the Note Payable Holders, (A) the 11.5% premium (\$805), which was payable at the maturity of the Notes Payable on November 15, 2009, (B) the \$1.0 million forbearance fee payable under the Forbearance Agreement, dated as of October 4, 2008, by and among the Company and Imperium, in its capacity as collateral agent for the Note Payable Holders, (C) \$45, representing accrued interest in respect of the Notes Payable, and (D) \$87, representing fees and expenses owed by the Company to the Note Payable Holders under the terms of the their SPA. (See Note 7. Notes Payable and Subordinated Convertible Note Payable – CD Financial, LLC).

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 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, 2013, 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 maturities thereof until the aggregate amount of payments made with

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regard to the Term Loan pursuant to 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.

Interest in respect of the Senior Credit Facility is payable in arrears on the first day of each month with respect to Revolving Advances or the Term Loan bearing interest at PNC's Base Rate plus 2.75% and 3.25%, respectively, and at the end of each interest period with respect to Revolving Advances or the Term Loan bearing interest at the Eurodollar Rate plus 2.75% and 3.25%, respectively.

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 (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 will automatically terminate upon the satisfaction of certain conditions set forth in the Loan Agreement.

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 8) are established.

In addition, in connection with the Senior Credit Facility, the following loan documents were executed: (i) the Company has entered into a Stock Pledge Agreement with PNC, pursuant to which the Company pledged to PNC the iBio Stock; (ii) IHT Properties has entered into a Mortgage and Security Agreement with PNC; and (iii) the Borrowers have entered into 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 Financial a 9.5% Convertible Senior Secured Note in the original principal amount of \$4,500 (the "Original CD Note"). (See Note 7. Notes Payable and Subordinated Convertible Note Payable – CD Financial, LLC). 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. In accordance with the applicable accounting guidance, this transaction was accounted for as a troubled debt restructuring. No gain on debt extinguishment was recognized in the accompanying consolidated statement of operations for the fiscal year ended June 30, 2012 as the undiscounted cash flows of the restructured debt was greater than the carrying amount of the debt prior to the restructuring.

The proceeds of the CD Notes were used to refinance (a) the Original CD Note, (b) the CD MDC Note 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.

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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 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 June 30, 2012, the related embedded derivative liability with respect to the CD Convertible Note has an estimated fair value of \$555.

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

	June 30, 2012	Issuance Date- June 27, 2012
Risk Free Interest Rate	0.72%	0.72%
Volatility	144.10%	144.10%
Term	5 years	5 years
Dividend Rate	0.00%	0.00%
Closing Price of Common Stock	\$ 0.09	\$ 0.09

**OTHER LONG TERM DEBT**

On June 27, 2012, MDC and the Company entered into separate promissory notes with Vitamin Realty Associates, LLC (“Vitamin Realty”) and E. Gerald Kay, the Company’s Chief Executive Officer, Chairman of the Board, President and a majority shareholder, 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 13. Commitments and Contingencies (a) Leases – Related Parties). 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. (See Note 14. Related Party Transactions). 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

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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.

On March 31, 2012, the Company entered into an auto loan financing with Acura Financial Services, Inc, in the amount of \$41, which loan is secured by an automobile and matures on April 15, 2017. Interest and principal in the amount of less than \$1 is payable monthly and bears interest at the rate of 1.9%.

**Note 9. Interest Expense**

The components of interest expense for the fiscal years ended June 30, 2012 and 2011 are presented below:

	For the Fiscal Years Ended June 30,	
	2012	2011
Interest - Convertible Note Payable and Notes Payable	\$ 1,045	\$ 1,001
Accretion of embedded derivative liability - Convertible Note Payable	1	837
Accretion of discount - Convertible Note Payable and Notes Payable	-	21
Amortization of prepaid financing costs	-	12
Additional interest - Common Stock	12	35
Interest on capitalized lease obligations	1	4
Interest on Notes Payable - CD Financial	17	15
Other interest expense	33	13
<b>Interest Expense</b>	<u><u>\$ 1,109</u></u>	<u><u>\$ 1,938</u></u>

The weighted average interest rate paid was 8.58% and 8.59% in the fiscal years ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, the Company had accrued unpaid interest of approximately \$8 and \$300, respectively.

**Note 10. Income Taxes**

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for income tax reporting. Significant components of the Company's deferred tax assets are as follows:

	June 30,	
	2012	2011
<b>Deferred Tax Assets</b>		
Net operating loss	\$ 14,613	\$ 13,268
Capital loss carryover	1,290	1,290
Valuation adjustment on investment	638	638
Depreciation	88	41
Inventory	839	752
Other	580	874
Valuation allowance	<u>(18,048)</u>	<u>(16,863)</u>
<b>Total deferred tax asset</b>	-	-
Less current portion	-	-
<b>Net long-term deferred tax asset</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Net operating losses ("NOL") of approximately \$37,498 will expire beginning in 2024 for federal purposes. State NOL's of approximately \$26,322 expires beginning in 2013 through 2030 depending on the state in which the NOL's were generated. The Company also has capital losses of \$3,230 which will begin to expire in 2013.

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Realization of the NOL carryforwards and other deferred tax temporary differences is contingent on future taxable earnings. The Company's deferred tax asset was reviewed for expected utilization using a "more likely than not" approach by assessing the available positive and negative evidence surrounding its recoverability. Accordingly, a valuation allowance has been recorded against the Company's deferred tax asset, as it was determined based upon past and present losses that it was "more likely than not" that the Company's deferred tax assets would not be realized. The valuation allowance was increased to the full carrying amount of the Company's deferred tax assets in the fiscal year ended June 30, 2009. In future years, if the deferred tax assets are determined by management to be "more likely than not" to be realized, the recognized tax benefits relating to the reversal of the valuation allowance as of June 30, 2012 will be recorded. The Company will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be utilized, and will reduce the valuation allowance appropriately as such time when it is determined that the "more likely than not" criteria is satisfied.

The components of the provision for income taxes consists of the following:

	<u>For the fiscal year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Current - Federal	\$ -	\$ -
Current - State and local	11	25
Deferred - Federal and state	1,174	356
Change in valuation allowance	<u>(1,174)</u>	<u>(356)</u>
<b>Income tax expense (benefit)</b>	<b><u>\$ 11</u></b>	<b><u>\$ 25</u></b>

A reconciliation of the statutory tax rate to the effective tax rate is as follows:

	<u>For the fiscal year</u> <u>ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Statutory federal income tax rate	(34)%	(34)%
Change in valuation allowance	39 %	16 %
Stock based compensation	0 %	8 %
Statutory state income tax rate	(6)%	(6)%
Non-deductible interest expense	0 %	15 %
Other items, net	<u>1 %</u>	<u>1 %</u>
<b>Effective income tax rate</b>	<b><u>0 %</u></b>	<b><u>0 %</u></b>

There were no significant uncertain tax positions taken, or expected to be taken, in a tax return that would be determined to be an unrecognized tax benefit taken or expected to be taken in a tax return that should have been recorded on the Company's consolidated financial statements for the year ended June 30, 2012. Additionally, there were no interest or penalties outstanding as of or for each of the fiscal years ended June 30, 2012 and 2011.

The federal and state tax returns for the years ending June 30, 2009, 2010 and 2011 are currently open and the tax returns for the year ended June 30, 2012 will be filed by March 15, 2013.

***Note 11. Profit-Sharing Plan***

The Company maintains a profit-sharing plan, which qualifies under Section 401(k) of the Internal Revenue Code, covering all nonunion employees meeting age and service requirements. Contributions are determined by matching a percentage of employee contributions. As of January 1, 2009, the Company curtailed the Company's matching percentage of employee contributions into the profit-sharing plan for the benefit of the

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employees. As of October 15, 2012, the Company has not determined when or if it will reinstate the discretionary employer match in the profit-sharing plan for the benefit of the employees.

***Note 12. 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 \$250. As of June 30, 2012, the Company had \$11 of uninsured deposits at these financial institutions.

***(b) Concentrations of Credit Risk-Receivables.*** 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 risk exposure beyond such allowances is limited. The Company does not require collateral in relation to its trade accounts receivable credit risk.

***(c) Major Customers.*** For the fiscal years ended June 30, 2012 and 2011 approximately 77% and 79%, respectively, of net sales were derived from two customers. Accounts receivable from these customers represented approximately 58% and 45% of total net accounts receivable as of June 30, 2012 and 2011, respectively. The loss of either 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.

***(d) Business Risks.*** The Company insures its business and assets against insurable risks, to the extent that it deems appropriate, based upon an analysis of the relative risks and costs. The Company believes that the risk of loss from non-insurable events would not have a material adverse effect on the Company's operations as a whole.

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 59% 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 13. Commitments and Contingencies***

***(a) Leases***

***Related Party Leases.*** Warehouse and office facilities are leased from Vitamin Realty, which is 90% owned by the Company's chairman, president and major stockholder and certain 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. Also on January 5, 2012, AgroLabs entered into a lease agreement with Vitamin Realty for an additional 2,700 square feet of warehouse space in New Jersey, the term of which expires on January 31, 2019. This additional lease provides for minimum lease payments of \$27 with annual increases plus the proportionate share of operating expenses.

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Rent expense for the fiscal years ended June 30, 2012 and 2011 on these leases were \$750 and \$739, respectively, and are included in both cost of sales and selling and administrative expenses in the accompanying Consolidated Statements of Operations. For the fiscal years ended June 30, 2012 and 2011, the Company had an outstanding obligation to Vitamin Realty of \$776 and \$738, respectively, included in accounts payable and long term debt in the accompanying Consolidated Balance Sheet. (See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).

**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).

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

Year ending June 30,	Operating Lease Commitments	Related Party Lease Commitment	Total
2013	\$ 89	\$ 563	\$ 652
2014	29	563	592
2015	12	563	575
2016	12	563	575
2017	4	563	567
Thereafter	-	4,623	4,623
<b>Total</b>	<b>\$ 146</b>	<b>\$ 7,438</b>	<b>\$ 7,584</b>

Total rent expense, including real estate taxes and maintenance charges, was approximately \$1,132 and \$1,116 for the fiscal years ended June 30, 2012 and 2011, respectively.

**(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 \$600 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 \$300.

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 the Company's position that it has no obligation to indemnify Cedarburg as demanded. As of October 15, 2012, 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.

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***Note 14. Related Party Transactions***

On June 27, 2012, Carl DeSantis, a director and major shareholder of the Company and a member of CD Financial entered into a Limited Guaranty Agreement with PNC in the amount of \$1.0 million. (See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt).

On June 27, 2012, E. Gerald Kay, the Company's Chief Executive Officer, Chairman of the Board, President and a major shareholder entered into a Limited Guaranty Agreement with PNC in the amount of \$1.0 million and a promissory note with the Company in the amount of \$27. (see Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, 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.

See Note 7. Notes Payable and Subordinated Convertible Note Payable – CD Financial, LLC for related party securities transactions.

See Note 8. Senior Credit Facility, Subordinated Convertible Note Payable, net - CD Financial, LLC and other Long Term Debt for related party securities transactions.

See Note 13(a) - Leases for related party lease transactions.

***Note 15. Equity Transactions***

***(a) Stock Option Plan.*** The Company has adopted a stock option plan for the granting of options or restricted shares to employees, officers, directors and consultants of the Company that originally provided for the purchase of up to 7,000,000 shares of common stock, at the discretion of the Board of Directors. Subsequent to the adoption, the Board of Directors and stockholders approved additional common stock shares aggregating 6,000,000 to be available for grant, for a total of 13,000,000 shares of common stock reserved for issuance under the Company's 2001 Stock Option Plan, as amended. Stock option grants may not be priced less than the fair market value of the Company's common stock at the date of grant. Options granted are generally for ten-year periods, except that incentive stock options granted to a 10% stockholder (as defined) are limited to five-year terms.

For the fiscal year ended June 30, 2011, options to purchase 25,000 shares of common stock with exercise prices below the market price were outstanding but were not included in the computation of diluted earnings per share as they are anti-dilutive as a result of net losses during the period. Options and warrants to purchase 3,415,338 and 3,263,755 shares of common stock were outstanding as of June 30, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per share as their exercise prices were greater than the market price of the common shares.

For the fiscal years ended June 30, 2012 and 2011, Subordinated Convertible Note Payables common share equivalents of 8,230,769 and 2,250,000, respectively were not included in the computation of diluted earnings per share as they were anti-dilutive as a result of net losses applicable to common shareholders.

During the fiscal year ended June 30, 2012 and 2011, the Company has incurred stock compensation expense of \$10 and \$234, respectively and is included in selling and administrative expenses in the consolidated statement of operations. Stock compensation expense includes Restricted Stock Units granted under the Company's Stock Option Plan that are also expensed over the vesting period.

**INTEGRATED BIOPHARMA, INC. AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2012 AND 2011 AND**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**  
(in thousands, except share and per share amounts)

The intrinsic value of options outstanding and exercisable at June 30, 2012 and 2011 was none and \$2, respectively.

A summary of the Company's stock option activity, and related information for the years ended June 30, follows:

	Options	Weighted Average Exercise Price
Outstanding as of July 1, 2010	3,509,338	\$ 4.77
Granted	-	-
Exercised	-	-
Terminated	(223,000)	0.86
Expired	(270,000)	0.75
Outstanding as of June 30, 2011	<u>3,016,338</u>	<u>5.42</u>
Granted	-	-
Exercised	-	-
Terminated	(61,500)	1.44
Expired	(39,500)	2.79
Outstanding as of June 30, 2012	<u><u>2,915,338</u></u>	<u><u>\$ 5.54</u></u>
Exercisable at June 30, 2011	<u>2,788,755</u>	<u>\$ 5.85</u>
Exercisable at June 30, 2012	<u><u>2,915,338</u></u>	<u><u>\$ 5.54</u></u>

The following table summarizes the range of exercise prices and weighted-average exercise prices for stock options outstanding and exercisable as of June 30, 2012 under the Company's stock option plans:

Range of Exercise Price	Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Exercisable	Weighted Average Exercise Price
\$ 0.14 - \$ 0.15	648,750	\$ 0.14	6.3	648,750	\$ 0.14
\$ 0.33 - \$ 0.33	55,000	0.33	0.3	55,000	0.33
\$ 0.75 - \$ 0.75	3,000	0.75	0.6	3,000	0.75
\$ 2.96 - \$ 2.96	50,000	2.96	5.8	50,000	2.96
\$ 3.05 - \$ 3.05	188,600	3.05	5.4	188,600	3.05
\$ 3.13 - \$ 3.13	50,000	3.13	3.4	50,000	3.13
\$ 3.36 - \$ 3.36	34,500	3.36	3.4	34,500	3.36
\$ 3.86 - \$ 4.10	72,000	3.97	3.4	72,000	3.97
\$ 5.29 - \$ 6.93	931,170	6.38	2.6	931,170	6.38
\$ 7.48 - \$ 7.90	26,500	7.88	2.9	26,500	7.74
\$ 9.90 - \$10.89	845,818	10.01	1.4	845,818	10.01
\$14.90 - \$14.90	10,000	14.90	1.8	10,000	14.90
<u>\$ 0.14 - \$14.90</u>	<u>2,915,338</u>	<u>\$ 5.54</u>	<u>2.2</u>	<u>2,915,338</u>	<u>\$ 5.54</u>

**(b) Warrants.** As of June 30, 2012 and 2011, the Company has 500,000 warrants outstanding to purchase shares of common stock at \$0.80. All warrants are currently exercisable and expire in October 2013.

## 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: October 15, 2012

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

Date: October 15, 2012

By: /s/ Dina L. Masi  
Dina L. Masi  
Chief Financial Officer