INTEGRATED BIOPHARMA INC
Form 10-Q
November 13, 2006

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to

Commission File Number 000-28876

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

Delaware	22-2407475
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
225 Long Ave., Hillside, New Jersey	07205
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report)

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

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 |X| No | |

Indicate by check whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes | | No |X|

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

Yes | | No |X|

Applicable only to Corporate Issuers:

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

Class	Outstanding at October 30, 2006
Common Stock, $0.002 par value	13,537,419 Shares

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT
For the Three Months Ended September 30, 2006

INDEX

Disclosure Regarding Forward-Looking Statements

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

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

ITEM 1. FINANCIAL STATEMENTS

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

	Three Sept
	2006
Sales, net	$ 12,911,238
Cost of sales	8,531,587

Gross profit	4,379,651
Selling and administrative expenses	4,011,635
Operating income	368,016
Other expense, net	(27,336
Income before income taxes	340,680
Federal and state income tax, net	210,182
Income before minority interest	130,498
Minority interest	37,590
Net income	168,088
Deemed dividend from beneficial conversion feature of Series B Preferred stock dividend	(562,500
Series B Preferred stock dividend	(119,096
Net (loss) income applicable to common shareholders	$ (513,508
Net (loss) income per common share:	
Basic	$ (0.04
Diluted	$ (0.04
Weighted average common shares outstanding	13,288,078
Dilutive potential shares:	
Warrants and options	-
Convertible preferred stock	-
Weighted average common share outstanding - assuming dilution	13,288,078

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudi Septembe 2006
Assets	
Current Assets:	
Cash and cash equivalents	$ 2,
Restricted cash	2,

Accounts receivable, net	5,
Inventories, net	14,
Deferred income taxes	3,
Other current assets	1,
Total current assets	29,
Property and equipment, net	4,
Goodwill	
Intangible assets, net	3,
Deferred income taxes	2,
Security deposits and other assets	
Total Assets	$ 40,
Liabilities and Stockholders' Equity:	
Current Liabilities:	
Revolving credit facility	$ 5,
Note payable - bank	
Accounts payable	5,
Accrued expenses and other current liabilities	2,
State income taxes payable	
Loan payable - Trade Investment Services, LLC, related party	
Total Current Liabilities	13,
Commitments and Contingencies	
Series B 7% Redeemable Convertible Preferred Stock, net of beneficial conversion feature, warrants issued and issuance costs, $0.002 par value; 1,250 shares authorized; 700 shares issued and 675 outstanding liquidation preference $6,750,000	5,
Minority Interest	
Stockholders' Equity:	
Common Stock, $0.002 par value; 25,000,000 shares authorized; 13,397,550 shares issued at September 30, 2006 and 13,200,961 at June 30, 2006; 13,362,650 shares outstanding at September 30, 2006 and 13,166,061 at June 30, 2006	
Additonal paid-in-capital	31,
Accumulated deficit	(10,3
Less: Treasury stock, at cost, 34,900 shares	(
Total Stockholders' Equity	20,
Total Liabilities and Stockholders' Equity	$ 40,

See accompanying notes to condensed consolidated financial statements.

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006
(Unaudited)

	Common Stock				Treasu
	Shares	Par Value	Additional Paid-in-Capital	Accumulated Deficit	Shares

Balance, June 30, 2006	13,200,961	$ 26,402	$ 30,580,604	$ (9,872,742)	34,900
Exercise of stock options for cash	182,200	364	133,507	-	-
Restricted stock award	14,389	29	107,596	-	-
Compensation expense for employee stock options	-	-	88,618	-	-
Income tax benefit from exercise of stock options	-	-	180,540	-	-
Dividends paid on Series B preferred stock	-	-	-	(119,096)	-
Deemed dividend from beneficial conversion feature of Series B preferred stock	-	-	-	(562,500)	-
Net Income	-	-	-	168,088	-
Balance, September 30, 2006 (Unaudited)	13,397,550	$ 26,795	$ 31,090,865	$(10,386,250)	34,900

See accompanying notes to condensed consolidated financial statements.

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

	Th
	2006
Cash flows from operating activities:	
Net income	$ 1
Adjustments to reconcile net income to net cash used for operating activities:	
Depreciation and amortization	3
Deferred income taxes	
Allowance for inventory	
Allowance for doubtful accounts	
Issuance of common stock for consulting services	
Compensation expense for employee stock options	
Minority interest	(3
Changes in assets and liabilities (excludes impact of acquistions):	
(Increase) decrease in:	
Accounts receivable	
Inventories	(3,94
Prepaid expenses and other assets	(17
Security deposits and other assets	(3

(Decrease) increase in:	
Accounts payable	1,7
Income taxes payable	
Accrued expenses and other liabilities	(16
Net cash used in operating activities	(1,74
Cash flows from investing activities:	
Purchase of intangible assets	(4
Purchase of property and equipment	(10
Net cash used in investing activities	(15
Cash flows from financing activities:	
Proceeds from the exercise of stock options	1
Repayment of note payable - bank	(4,49
Repayment of loan payable - TIS	(17
Proceeds from revolving credit facility	5,0
Funding of restricted cash under revolving credit facility	(2,00
Dividends paid	(11
Net cash used in financing activities	(1,65
Net decrease in cash and cash equivalents	(3,54
Cash and cash equivalents at beginning of period	5,7
Cash and cash equivalents at end of period	$ 2,2
Supplemental disclosures of cash flow information:	
Cash paid during the periods for:	
Interest	$
Income taxes	$ 1
Supplemental disclosures of non-cash transactions:	
Deemed dividend from beneficial conversion feature of Series B Preferred stock	$ (56
Restricted stock awards	$ 1

See accompanying notes to condensed consolidated financial statements.

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

Note 1. Principles of Consolidation and Basis of Presentation

The accompanying financial statements for the interim periods are unaudited and include the accounts of the Company and its subsidiaries, all of which are wholly-owned or majority owned with an offset to minority interest. All significant intercompany transactions and balances have been eliminated. The interim financial statements have been prepared in conformity with Rule 10-01 of

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

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

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

- sales returns and allowances;
- allowance for doubtful accounts;
- inventory valuation;
- valuation and recoverability of long-lived and intangible assets and goodwill, including the values assigned to acquired intangible assets;
- income taxes and valuation allowance 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. Nothing has come to our attention which would cause a change in these estimates.

Earnings Per Share. In accordance with FASB Statement No. 128, "Earnings Per Share," basic earnings per common share are based on weighted average number of common shares outstanding. Diluted earnings per share amounts are based on the weighted average number of common shares outstanding, plus the incremental

shares that would have been outstanding upon the assumed exercise of all potentially dilutive stock options, warrants and convertible preferred stock, subject to antidilution limitations.

During the three months ended September 30, 2006, options and warrants to purchase 4,877,144 shares of common stock were outstanding but were not included in the computation of diluted earnings per share as they were antidilutive as a result of net losses available to common shareholders during the period. During the three months ended September 30, 2005, 3,892,998 options with exercise prices below average market price were included in the computation of diluted earnings per share.

During the periods ended September 30, 2006 and 2005, Convertible Series B Preferred Stock in the amount of 675,000 and 700,000 common share equivalents were not included in the computation of diluted earnings per share as their conversion price was greater than the average market price of the common shares for the 2005 period and for the 2006 period, they were antidilutive as a result of net losses available to common shareholders.

During the three months ended September 30, 2006 and 2005, options and warrants to purchase 1,480,500 shares and 2,941,930 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because their exercise price was greater than the average market price of the common shares.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3 ("SFAS 154")". SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 does not change the guidance for reporting the correction of an error in previously issued financial statements or a change in accounting estimate. The provisions of SFAS 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We are not able to assess at this time the future impact of this statement on our consolidated financial position or results of operations.

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

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

Note 2. Goodwill and other Intangible Assets

Goodwill and intangibles with indefinite lives are tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The Company performed its annual impairment test during the third quarter of fiscal 2006. As of September 30, 2006 and June 30, 2006, goodwill consisted of $145,410 from the Aloe Acquisition.

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

	September 30, 2006			June 30, 20	
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulate Amortizati
Intellectual property	$ 1,850,000	$ 317,917	$ 1,532,083	$ 1,850,000	$ 271,6
Trade names and patents	1,792,456	241,639	1,550,817	1,749,135	216,1
Unpatented technology	547,000	189,999	357,001	547,000	179,9
License agreement	637,467	112,078	525,389	637,467	100,2
Total	$ 4,826,923	$ 861,633	$ 3,965,290	$ 4,783,602	$ 768,0

Amortization expense recorded on the intangible assets for the three months ended September 30, 2006 and 2005 was $93,627 and $71,973, respectively. Amortization expense is recorded on the straight-line method of periods ranging from 10 years to 20 years.

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

Year Ending June 30,	Amortization Expense
2007, remaining	$ 284,900
2008	378,500
2009	378,500
2010	378,500
2011	378,500
Thereafter	2,166,390
Total	$ 3,965,290

Note 3. Inventories

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

	September 30, 2006	June 30, 2006
Raw materials	$ 7,848,226	$ 5,484,485
Work-in-process	2,556,197	1,803,532
Finished goods	4,498,960	3,684,826
Total	$ 14,903,383	$ 10,972,843

Note 4. Property and Equipment

Property and equipment consists of the following as of September 30, 2006 and June 30, 2006:

	September 30, 2006	June 30, 2006
Land and building	$ 1,250,000	$ 1,250,000
Leasehold improvements	2,157,321	2,157,321
Machinery and equipment	6,651,153	6,544,096
Transportation equipment	37,714	37,714
	10,096,188	9,989,131
Less: Accumulated depreciation and amortization	6,030,773	5,815,774
Total	$ 4,065,415	$ 4,173,357

Note 5. Note and Loan Payable

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

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

In September 2006, the Company paid off the Note and Loan Payable with proceeds from a $15.0 million revolving credit facility it secured with a bank. (See Note 6. Revolving Credit Facility.)

Note 6. Revolving Credit Facility and Restricted Cash

On September 1, 2006, the Company entered into a loan agreement with Amalgamated Bank, a financial institution. The loan agreement provides for a one-year secured revolving credit facility of up to $15.0 million. Concurrently, the Company paid off its $4.5 million note to the Bank of America, its obligation to Trade Investments Services, LLC and other miscellaneous obligations, including the costs associated with securing the facility with $5.0 million of borrowings

under the facility.

The interest rate under the credit facility is equal to, at the Company's option, either (1), the lender's publicly announced base rate, or (2) 1.5% plus the applicable LIBOR rate. Interest is payable monthly, quarterly or semi-annually, at the Company's election, in arrears not later than the end of each such period. As of September 30, 2006, the interest rate was 6.95% and the Company had accrued and unpaid interest of approximately $28,600. The facility also has a commitment fee equal to 0.50% per annum calculated on the unused amount of the facility. As of September 30, 2006, the Company had approximately $4,200 in accrued and unpaid commitment fees.

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

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

The credit facility also provides for customary events of default, including non-payment defaults and covenant defaults. The Company was in compliance with its loan covenants as of September 30, 2006.

Note 7. Significant Risks and Uncertainties

(a) Concentrations of Credit Risk-Cash. The Company maintains balances at several financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At September 30, 2006, the Company's uninsured cash balances were approximately $3.5 million.

(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. The amount of the allowance for uncollectible accounts and other allowances at September 30, 2006 and June 30, 2006 is $125,613 and $125,013, respectively.

(c) Major Customers. For the three months ended September 30, 2006, approximately 42% or $5.4 million, 20% or $2.5 million and 15% or $1.9 million of revenues were derived from three customers. For the three months ended September 30, 2005 approximately 36% or $5.3 million, 35% or $5.3 million and 24% or $3.5 million of revenues were derived from three customers. The loss of any of these customers would have an adverse affect on the Company's operations. Accounts receivable from these three customers comprised approximately 59% of total accounts receivable at September 30, 2006.

(d) Business Risks. The Company insures it business and assets against insurable risks, to the extent that it deems appropriate, based upon an analysis of the relative risks and costs. The 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 35% the Company's employees, located in its New Jersey facility, are covered by a union contract. The contract was renewed in August 2006 and will expire in August 2010.

Note 8. Commitments and Contingencies

(a) Leases

Related Party Leases- Warehouse and office facilities are leased from Vitamin Realty Associates, L.L.C., a limited liability company, which is 90% owned by the Company's chairman, president and principal stockholder and certain family members and 10% owned by an employee of the Company. The lease provides for minimum annual rental of $323,559 through May 31, 2015 plus increases in real estate taxes and building operating expenses. On July 1, 2004, the Company leased an additional 24,810 square feet of warehouse space on a month-to month basis. Rent expense for the three months ended September 30, 2006 and 2005 on this lease was $186,700 and $163,000 respectively, and is included in both manufacturing and selling and administrative expenses.

Other Lease Commitments- The Company leases manufacturing and office facilities through March 31, 2007. The lease was effective on April 1, 2002 and provided for minimum monthly rental of $32,500 per month through March 31, 2007 plus increases in real estate taxes and building operating expenses. Rent expense has been straight-lined over the life of the lease. At its option, the Company has the right to renew the lease for an additional five-year period. On August 27, 2002, the lease was amended reducing the square footage from approximately 32,500 to 22,500 and reducing the monthly rent to $22,483 per month for the balance of the lease. Rent expense for the three months ended September 30, 2006 and 2005 was $92,000 and $98,588, respectively and is included in manufacturing expenses.

The Company leases warehouse and office facilities through March 31, 2007. The lease was effective on March 6, 2004, and provides for a minimum monthly rental of $9,967. In September 2006, the Company leased additional warehouse space under a three-year lease commitment with minimum monthly rental payments of $12,008. The Company leases additional office space on a month-to-month basis; minimum monthly rental payments are $1,126. The lease was effective on October 1, 2005, and provides for a minimum monthly rental of $1,126. The company leases office space through December 31, 2012, and provides for a minimum monthly rental of $18,611. The Company leases warehouse equipment for a five (5) year period with an annual rental of $15,847 and office equipment for a five (5) year period with an annual rental of $8,400.

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

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

Year ending June 30,	Lease Commitment	Related Party Lease Commitment	Total
2007, remaining	$ 488,000	$ 242,700	$ 730,700
2008	373,000	323,600	696,600
2009	357,400	323,600	681,000
2010	226,500	323,600	550,100
2011	196,100	323,600	519,700
Thereafter	289,700	1,267,100	1,556,800
Total	$ 1,930,700	$ 2,804,200	$ 4,734,900

Total rent expense, including real estate taxes and maintenance charges, was approximately $411,000 and $425,000 for the three months ended September 30, 2006 and 2005, respectively.

(b) Intellectual Property Agreement - In connection with the acquisition in January 2004, and subsequent amendments thereto; of intellectual property developed by the Center for Molecular Biotechnology of Fraunhofer USA, Inc., the Company will pay up to a maximum of $3.7 million for certain technology developed by Fraunhofer USA, Inc. over a five-year period. As of September 30 and June 30, 2006, $1.8 million has been paid and is being amortized on a straight-line basis over a ten-year period.

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

Pom Wonderful LLC v. Agrolabs, Inc., pending in the United States District Court for the Central District of California. Plaintiff commenced this action in December 2005 against us alleging trademark infringement of its "POM Wonderful" and related trademarks by our use of its supplier's registered trademark for "Pomella," which is the name of a pomegranate extract ingredient used in our "Naturally Pomegranate" nutritional supplement. We had purchased the pomegranate extract ingredient from a third party supplier, Geni Herbs, Inc. against whom the Plaintiff had filed a similar infringement action in June 2005 (Pom Wonderful LLC v. Geni Herbs, Inc. also pending in the Central District of California). We filed counterclaims against the Plaintiff for cancellation of its various trademarks. As the case was entering the early phases of discovery and we were seeking to consolidate the two actions and to file cross-claims

against Geni Herbs, we learned that the Plaintiff and Geni Herbs were engaged in a mediation. As a result of our participation in the negotiations, both cases have been settled in principle. The settlement agreements have been distributed for execution by the parties. The Company does not believe that there will be a material impact on the Company's financial position.

Note 9. Related Party Transactions

The Company has a consulting agreement with Eugene Kay, a former employee of the Company and a brother of E. Gerald Kay, the Company's Chairman of the Board. This agreement is on a month-to-month basis for $1,100 per month. The total consulting expense recorded per this verbal agreement for the three months September 30, 2006 and 2005 was $3,300. The Company has another consulting agreement with EVJ, LLC, a limited liability company controlled by Robert Kay, a director of the Company, the Chairman of its subsidiary, InB: Paxis, and a brother of E. Gerald Kay and Eugene Kay. This agreement was assumed by and became a liability of the Company as a part of the Company's acquisition of Paxis Pharmaceuticals Inc. in fiscal year ended June 30, 2004. The total consulting expense under this agreement was $30,000 for the three months ended September 30, 2006 and 2005.

Note 10. Equity Transactions

(a) Stock Option Plan and Warrants - There were no stock options or warrants issued in the quarter ended September 30, 2006.

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

As of September 30, 2006, the Company was obligated to issue 14,389 shares of its common stock under this agreement.

Note 11. Segment Information

The basis for presenting segment results generally is consistent with overall Company reporting. The Company reports information about its operating segments in accordance with Financial Accounting Standard Board Statement No. 131, "Disclosure About Segments of an Enterprise and Related Information," which establishes standards for reporting information about a company's operating segments.

The Company has divided its operations into three reportable segments as follows: Nutraceuticals, Pharmaceuticals and Biotechnologies. The international sales, concentrated primarily in Europe, for the three months ended September 30, 2006 and 2005 were $3.9 million and $2.1 million respectively.

Financial information relating to the three months ended September 30, 2006 and 2005 operations by business segment is as follows:

	For the Three Months Ended September 30,	
	2006	

	Nutra-ceuticals	Pharma-ceuticals	Biotech-nologies	Total	Nutra-ceuticals	Phar ceuti
Sales, net U.S. customers	$ 7,755,030	$1,180,286	$ 116,547	9,051,863	$ 11,917,850	$ 7
International customers	3,464,443	394,932	-	3,859,375	2,046,722	
Total Sales, net	$ 11,219,473	$1,575,218	$ 116,547	$12,911,238	$ 13,964,572	$ 8
Segment operating profit (loss)	$ 838,757	$(257,744)	$(212,997)	$ 368,016	$ 3,542,483	$(1,47
Depreciation	$ 95,134	$ 119,865	$ -	$ 214,999	$ 88,718	$ 1
Capital expenditures	$ 83,662	$ 23,395	$ -	$ 107,057	$ 41,023	$

	As of September 30,					As
	2006					
Total Assets	$ 31,659,930	$6,533,543	$1,961,126	$40,154,599	$ 29,911,297	$ 5,8

Note 12. Subsequent Event

On October 16, 2006, the Company redeemed 650 shares of its Series B Redeemable Convertible Preferred Stock ("Preferred Stock") at a redemption price of $6.7 million. In addition to the cash consideration, equal to the face amount of the Preferred Stock and the related dividend, the Company also agreed to issue to the holder 100,000 additional Warrants to purchase common stock of the Company at a purchase price of $12 per share exercisable until October 2011 and agreed to adjust the Warrants issued in 2004 in connection with the initial purchase of the Preferred Stock to conform to the new Warrants. The amended Warrants issued in 2004, along with the additional Warrants issued in October 2006, will result in additional non-cash dividends on the Preferred Stock of approximately $1.5 million.

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

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

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

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

Critical Accounting Policies and Estimates

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;
- allowance for doubtful accounts;
- inventory valuation;
- valuation and recoverability of long-lived and intangible assets and goodwill, including the values assigned to acquired intangible assets;
- income taxes and valuation allowance 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. There have been no material changes in the calculation of these estimates since the audited financial statements at June 30, 2006.

Allowances for Doubtful Accounts and Sales Returns

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

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

If the historical data the Company uses to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding

receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected. In recording any additional allowances, a respective charge against income is reflected in the general and administrative expenses, and would reduce the operating results in the period in which the increase is recorded.

We preformed a sensitivity analysis to determine the impact of fluctuations in our estimates for our allowance for doubtful accounts. As of September 30, 2006 the allowance was $125,613. If this number were in error by plus or minus one percent of the account receivable balance, the impact would be an additional $58,100 of income or expense.

Inventory Valuation

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

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

The Company preformed a sensitivity analysis to determine the impact of fluctuations in our estimates for inventory allowances. As of September 30, 2006 the allowance was $12,500. If this number were in error by plus or minus one percent of the total inventory balance, the impact would be an additional $149,200 of income or expense.

Long Lived Assets

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

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

Goodwill and Other Intangible Assets - The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards No. 142 ("SFAS

142"), "Goodwill and Other Intangible Assets". SFAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized against earnings, but instead tested for impairment at least annually based on a fair-value approach as described in SFAS 142.

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

General - The Company recognizes revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin 104. The Company recognizes product sales revenue when title and risk of loss have transferred to the customer, when estimated provisions for product returns, rebates, chargebacks and other sales allowances are reasonably determinable, and when collectibility is reasonably assured. Accruals for these items are presented in the condensed consolidated financial statements as reductions to sales. The Company's net sales represent gross sales invoiced to customers, less certain related charges for discounts, returns, rebates, chargebacks and other allowances. Cost of sales includes the cost of raw materials and all labor and overhead associated with the manufacturing and packaging of the products. Gross margins are affected by, among other things, changes in the relative sales mix among the Company's products, as well as gross margins of acquired entities.

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

Results of Operations

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

	For the three months ended September 30,	
	2006	2005
Sales, net	100.0%	100.0%
Costs and expenses:		
Cost of sales	66.1%	63.5%
Selling and administrative	31.0%	23.1%
	97.1%	86.6%
Income from operations	2.9%	13.4%
Other income (expense):		
Interest expense	(0.8%)	(0.5%)
Other income	0.2%	0.1%
Interest and investment income	0.4%	0.0%

	(0.2%)	(0.4%)
Income before income taxes	2.6%	13.0%
Federal and state income taxes, net	1.6%	0.3%
Income before minority interest	1.0%	12.7%
Minority interest	0.3%	0.2%
Net income	1.3%	12.9%
Deemed dividend from beneficial conversion feature of Series B Preferred Stock	(4.4%)	(4.0%)
Series B Preferred Stock dividend	(0.9%)	(0.8%)
Net (loss) income allocable to common shareholders	(4.0%)	8.1%

For the three month period ended September 30, 2006 compared to the three month period ended September 30, 2005

Sales, net. Sales, net, for the first quarter ended September 30, 2006 and 2005 were $12.9 million and $14.8 million, respectively, a decrease of $1.9 million or 12.7%. The decrease is comprised of the following:

	Three months ended September 30,		Dollar Increase (Decrease
	2006	2005	2006 vs 20
Nutraceuticals – US Customers	$ 7,755,030	$ 11,917,850	$ (4,162
Nutraceuticals – International Customers	3,464,443	2,046,722	1,41
Total Nutraceuticals	11,219,473	13,964,572	(2,745
Pharmaceuticals – US Customers	1,180,286	794,775	38
Pharmaceuticals – International Customers	394,932	22,185	37
Total Pharmaceuticals	1,575,218	816,960	75
Biotechnologies	116,547	5,575	11
Total	$ 12,911,238	$ 14,787,107	$ (1,875

Sales, net. Sales, net for the three months ended September 30, 2006 and 2005 were $12.9 million and $14.8 million, respectively, a decrease of approximately $1.9 million or 12.7%. This decrease is primarily the result of a

decrease in the Company's Nutraceuticals Segment of approximately 20%, offset by increases in our other two business segments. For the quarter ended September 30, 2005, the Company introduced a new product in its propriety nutraceutical product line and increased its distribution in one of its major customers from a test market distribution to nation-wide distribution of all of its then existing products. These factors resulted in an incremental increase in sales for the quarter ended September 30, 2005 of approximately $4.0 million, with no similar one-time factors existing in the quarter ended September 30, 2006.

Pharmaceuticals sales for the three months ended September 30, 2006 were $1.6 million compared to $817,000 for the comparable period. This increase is primarily due to increased sales of approximately $300,000 of the Company's API in the quarter ended September 30, 2006 compared to the quarter ended September 30, 2005. Additionally, our CRO business had increased sales of approximately $500,000 in the quarter ended September 30, 2006 compared to the quarter ended September 30, 2005. These increased sales are a result of the Segment implementing its sales and marketing strategy in the fiscal year ended June 30, 2006.

Our Biotechnologies Segment did not significantly contribute to our net sales and gross profits in the quarters ended September 30, 2006 and 2005.

For the three months ended September 30, 2006, approximately 61% of revenues were derived from three customers as compared 95% of revenues for the three months ended September 30, 2005. The loss of any of these customers would have an adverse affect on the Company's operations. The Company continues to expand its customer base by expanding from selling its propriety branded nutraceutical products primarily to the "club" stores to the retail sales segment.

Cost of sales. Cost of sales decreased to $8.5 million for the three months ended September 30, 2006 as compared to $9.4 million for the three months ended September 30, 2005. Cost of sales increased as a percentage of sales to 66% for the three months ended September 30, 2006 as compared to 64% for the three months ended September 30, 2005. The increase of approximately two percent (2.0%) in our cost of sales is primarily a result of our manufacturing expenses, as a majority of our manufacturing costs are fixed, as sales volumes decrease, the cost of sales as a percentage of sales will increase as there are fewer sales to spread the fixed costs over.

Selling and Administrative Expenses. Selling and administrative expenses were $4.0 million for the three months ended September 30, 2006, an increase of $601,000 or 17.6% as compared with $3.4 million for the three months ended September 30, 2005. As a percentage of sales, net, selling and administrative expenses were 31.4% for the three months ended September 30, 2006 and 23.1% for the prior comparable period. A tabular presentation of the changes in selling and administrative expenses is as follows:

	Three months ended September 30,		Dollar increase (Decrease)	Percentage Change
	2006	2005	2006 vs 2005	2006 vs 2005
Salaries	$ 928,685	$ 670,291	$ 258,394	38.5%
Advertising	680,932	496,247	184,685	37.2%
Consulting and other professional fees	349,936	447,287	(97,351)	(21.8%)
Indirect expenses	334,666	262,663	72,003	27.4%

Marketing	207,179	29,457	177,722	603.3%
Employee Benefits	200,975	153,889	47,086	30.6%
Depreciation & Amortization	178,872	148,282	30,590	20.6%
Auto, Travel & Entertainment	151,630	149,715	1,915	1.3%
Commissions	150,281	286,116	(135,835)	(47.5%)
Office Rent	147,290	184,778	(37,488)	(20.3%)
Insurance	139,686	36,983	102,703	277.7%
Office	123,752	118,201	5,551	4.7%
Compensation expense for employee stock options	88,618	151,517	(62,899)	(41.5%)
Other	329,133	275,219	53,914	19.6%
Total	$ 4,011,635	$ 3,410,645	$ 600,990	17.6%

Salaries increased approximately $258,000 in the three months ended September 30, 2006 or 38.5% as a result of hiring an investor relations officer at the end of our last quarter. In addition to his base salary, in the three months ended September 30, 2006, this employee earned a performance bonus based on a transaction which occurred in the three months ended September 30, 2006, his combined compensation was approximately $225,000 with no comparable expense in the three months ended September 30, 2005. The balance of the increase or $33,000 represents a 5.0% increase over salaries in the three months ended September 30, 2005 as a result of net new employees and general salary increases. A decrease in consulting and other professional fees of $97,400 offset the increase in salaries, in part.

Advertising expense increased approximately $185,000 or 38.5% in the three months ended September 30, 2006 as part of our marketing plan to increase advertising to support our proprietary branded nutraceutical products. We spent $74,250 in media advertisements such as radio and newspaper ads in the three months ended September 30, 2006 with no comparable expense in the prior period and an additional $110,000 on other trade advertising.

We also incurred additional marketing expenses of $178,000 in the three months ended September 30, 2006 on the design and printing of new marketing materials used in the general marketing of our products as compared to the three months ended September 30, 2005.

Commissions decreased approximately $136,000 or 47.5%. Commissions as a percentage of sales that commissions are owed was 3.2% of such sales in the three months ended September 30, 2006 compared to 2.9% of such sales in the three months ended September 30, 2005. Our commission payout ranges from three to five percent of qualifying sales, the increase in the payout rate from the three months ended September 30, 2005 to the three months ended September 30, 2006 is a result of an increase in sales qualifying for a five percent commission payment.

Insurance cost increased by approximately $103,000 primarily as a result of a change in allocation between manufacturing costs and general and administrative costs.

Other expense, net. Other expense, net was $27,336 for the three months ended September 30, 2006 as compared to $59,596 for the comparable period a year ago. The decrease of $32,260 was primarily attributable to, an increase in interest expense of $21,130 due to the ongoing increase in the Libor rate, offset in part, by an increase in interest income of approximately $42,000.

Federal and state income tax, net. Federal and state income tax increased from $44,700 in the three months ended September 30, 2005 to $210,000 in the three months ended September 30, 2006. Our effective tax rate increased from 2.3% to 61.7%. The dollar amount increase and the increase in our effective tax rates are primarily a result of increased state taxes owed in certain states where our subsidiaries file separate tax returns and do not have operating losses from our other subsidiaries to offset their taxable income in such states. Additionally, in the three months ended September 30, 2006, we had a deferred federal tax expense of approximately $76,000 with no federal tax expense in the three months ended September 30, 2005 as a result of offsetting valuation allowances recorded in such period.

Net income. The Company's net income for the three months ended September 30, 2006 was $168,100 as compared to net income of $1.9 million for the three months ended September 30, 2005. This decrease in net income of approximately $1.7 million is primarily the result of a decrease in gross profit of approximately $982,500, an increase in selling and administrative expenses of $633,000, a decrease in other expense of approximately $32,000, and an increase in federal and state income taxes of approximately $165,000.

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

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

Liquidity and Capital Resources

The Company's primary sources of liquidity and capital resources are cash generated from operations. The Company also has a $15.0 million revolving line of credit available through September 1, 2007 with a one-year renewal option available at the lender's option. The Company's principal uses of cash have been to finance working capital, acquisitions, capital expenditures and Preferred Series B Stock dividend payments and the redemption of its Preferred Series B Stock. The Company anticipates these uses will continue to be its principal uses of cash in the future, except that subsequent to October 2006, the Company's use for Preferred Series B Stock dividend payments will not be a significant use as it redeemed 650 shares in October 2006 and the cash dividends on the remaining 25 shares will be approximately $9,700 for the remainder of fiscal 2007 and none thereafter as the shares will be either converted or redeemed by its maturity date of April 20, 2007.

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

cash and cash equivalents and other operating measures:

	For the three months ended September 30,	
	2006	2005
Net cash used in operating acitivites	$ (1,740,817)	$ (296,979)
Net cash used in investing acitivites	$ (150,377)	$ (48,544)
Net cash used in financing acitivites	$ (1,654,775)	$ (66,057)
Cash and cash equivalents at end of period	$ 2,200,867	$ 2,015,973
Days sales in inventory	91	80
Inventory turnover	4.0	4.5

At September 30, 2006, the Company's working capital was $15.7 million, an increase of $638,000 over working capital at June 30, 2006 of $15.1 million. Cash and cash equivalents were $2.0 million at September 30, 2006, a decrease of $3.5 million from June 30, 2006. The Company utilized $1.7 million and $297,000 of net cash for operations for the three months ended September 30, 2006 and 2005, respectively. The primary reason for the increase in cash used in operating activities is the increase in cash used in inventories. Our inventory levels increased by $3.9 million in the three months ended September 30, 2006 based on our increased sales orders for future shipments. The Company believes that anticipated sales for next year, current cash balances and its revolving credit facility should meet its cash needs for operations for fiscal 2007.

The Company utilized $150,400 and $48,500 of cash in investing activities for the three months ended September 30, 2006 and 2005, respectively. The Company utilized $1.7 million and $66,100 of cash from financing activities for the three months ended September 30, 2006 and 2005, respectively. The significant use of cash in financing activities was a required deposit of $2.0 million, in an interest bearing certificate of deposit, with our lender in connection with our $15.0 million revolving credit facility.

The Company's total annual commitments at September 30, 2006 for long term non-cancelable leases of approximately $731,000 consists of obligations under operating leases for facilities and lease agreements for the rental of warehouse equipment, office equipment and automobiles.

On October 20, 2006, the Company borrowed an additional $8.5 million on its $15.0 million revolving credit facility increasing its borrowings under the line to $13.5 million. The proceeds were used to redeem 650 shares of the Series B Preferred Stock and for general corporate purposes.

The Company believes its sources of cash will be sufficient to fund its operations and meet its cash requirements to satisfy its working capital needs, capital expenditure needs, outstanding commitments, and other liquidity requirements associated with its existing operations over the next twelve months. The Company's ability to fund these requirements will depend on its future operations, performance and cash flow and is subject to prevailing economic conditions and financial, business and other factors, some of which are

beyond the Company's control. In addition, as part of the Company's strategy, it may pursue acquisitions and investments that are complementary to its business. Any material future acquisitions or investments will likely require additional capital and therefore, the Company cannot predict or assure that additional funds from existing sources will be sufficient for such future events.

Capital Expenditures

The Company's capital expenditures for the three months ended September 30, 2006 and 2005 were $107,100 and $48,500, respectively. The Company has budgeted approximately $500,000 for capital expenditures for fiscal 2007. The total amount is expected to be funded from cash provided from its operations.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncement - refer to footnote 1 of the condensed consolidated financial statements for the three months ended September 30, 2006 included in Part I - Item 1.

Impact of Inflation

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the Company is party to financial instruments that are subject to market risks arising from changes in interest rates and foreign currency exchange rates, primarily with respect to the Canadian Dollar in its customer receivables. The Company's use of derivative instruments is very limited and it does not enter into derivative instruments for trading purposes. We performed a sensitivity analysis to determine the impact of fluctuations on interest rates relating to our outstanding variable debt. If interest rates varied by plus or minus one percent our income would be higher or lower in the amount of $50,000 per annum.

Item 4. CONTROLS AND PROCEDURES

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

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and

forms. The Company has not completed its Sarbanes Oxley section 404 process, or related assessment in the process of evaluation and testing and is not required to do so until our fiscal year ending June 30, 2008. The Company may identify deficiencies that may require remediation in the process of its evaluation and testing.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Pom Wonderful LLC v. Agrolabs, Inc., pending in the United States District Court for the Central District of California. Plaintiff commenced this action in December 2005 against us alleging trademark infringement of its "POM Wonderful" and related trademarks by our use of its supplier's registered trademark for "Pomella," which is the name of a pomegranate extract ingredient used in our "Naturally Pomegranate" nutritional supplement. We had purchased the pomegranate extract ingredient from a third party supplier, Geni Herbs, Inc. against whom the Plaintiff had filed a similar infringement action in June 2005 (Pom Wonderful LLC v. Geni Herbs, Inc. also pending in the Central District of California). We filed counterclaims against the Plaintiff for cancellation of its various trademarks. As the case was entering the early phases of discovery and we were seeking to consolidate the two actions and to file cross-claims against Geni Herbs, we learned that the Plaintiff and Geni Herbs were engaged in a mediation. As a result of our participation in the negotiations, both cases have been settled in principle. The settlement agreements have been distributed for execution by the parties. The Company does not believe that there will be a material impact on the Company's financial position

Item 1A. Risk Factors

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

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

On August 3, 2006, the Company entered into a one-year financial services agreement whereby it agreed to issue to a financial advisor an initial 12,500

shares of its common stock and will issue additional shares worth $15,000, on a monthly basis, calculated on the third day of each month by dividing $15,000 by the prior ten (10) day volume-weighted average closing share price of the common stock of the Company.

As of September 30, 2006, the Company was obligated to issue 14,389 shares of its common stock under this agreement.

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

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	
31.1	Certification of pursuant to Section 302 of Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
31.2	Certification of pursuant to Section 302 of Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
32.1	Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
32.2	Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.

SIGNATURES

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

INTEGRATED BIOPHARMA, INC. AND SUBSIDIARIES

Date: November 13, 2006 By:/s/ E. Gerald Kay
E. Gerald Kay,
Chief Executive Officer

Date: November 13, 2006 By:/s/ Dina L. Masi
Dina L. Masi,
Chief Financial Officer &
Senior Vice President

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, E. Gerald Kay certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated BioPharma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the

registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2006

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

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dina L. Masi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integrated BioPharma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our

conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2006

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

Exhibit 32.1

CERTIFICATION OF PERIODIC REPORT
As adopted Pursuant to Section 906 of
the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q for the first quarter ended September 30, 2006 of Integrated BioPharma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), E. Gerald Kay, the Chief Executive Officer of Integrated BioPharma, Inc. certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange

Commission or its staff upon request.

Dated: November 13, 2006 By: /s/ E. Gerald Kay
E. Gerald Kay
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF PERIODIC REPORT
As adopted pursuant to Section 906 of
the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q for the first quarter ended September 30, 2006 of Integrated BioPharma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Dina L. Masi, the Senior Vice President and Chief Financial Officer of Integrated BioPharma, Inc. certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to her knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

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

Dated: November 13, 2006 By:/s/ Dina L. Masi
Dina L. Masi
Chief Financial Officer &
Senior Vice President